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Creation Date: 1997-02-13

Subject: weekly

Creator: Andrew Mayock CN=Andrew Mayock/O=Department of the Treasury [UNKNOWN]

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Mail-Server (Mail-Server@CLINTON.AI.MIT.EDU@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:11-MAR-1997 20:10:00.00

SUBJECT: 1997-03-11 Frank Raines et alia Briefing on DC Aid Package

TO: Jeffrey H. Cohen (Jeffrey H. Cohen@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 11, 1997

PRESS BRIEFING

BY OMB DIRECTOR FRANKLIN RAINES

AND MOZELLE THOMPSON, DEPUTY ASSISTANT SECRETARY FOR

GOVERNMENT FINANCIAL POLICY AT TREASURY

AND ELLEN SEIDMAN, SPECIAL ASSISTANT TO THE PRESIDENT

FOR ECONOMIC POLICY

The Briefing Room

5:05 P.M. EST

MR. HAAS: Hi, everyone. We just wanted to make some of our lead officials available to answer your questions. Frank Raines is here, the Director of OMB, Chair of the President's Task Force on D.C., who is spearheading this overall effort. Mozelle Thompson, Principal Deputy Assistant Secretary of the Treasury is here, and Ellen Simon is also here. She's Special Assistant to the President for Economic Policy, a member of the NEC and played a big role in the development of this plan, and we've got Ed De Seve from OMB, the Controller, who also has continued to be instrumental.

We are off-camera, are we not off-camera. Okay, fine. We're just on lights. We don't have any opening statement, so I'm just going to open it up for you for Frank and Mozelle and anyone else.

Q What was the President -- he talked kind of in general terms about helping D.C., but you did have a very specific program you laid out. Is that his speech, to introduce this program? And where is your program in Congress at this point?

DIRECTOR RAINES: Well, the President's plan that related to the city government's finances is doing quite well. We are in the process of agreeing on a memorandum of understanding with the local parties. There's been one hearing on it in the House, and there is an expectation that we're going to be moving forward in the legislative process quite rapidly.

I still hope to have a bill out of the House this spring and to have that bill enacted by Congress this year. So we are on path with the regard to the President's overall plan. Today, what we are talking about is that part of the plan that relates to the private sector, not the government of the District of Columbia, but the private sector of the District of Columbia, and what the President has done is propose a series of incentives for $300 million, available over the next five years, to help build the private economy in the city.

Q Mr. Raines, one of the concerns we all are hearing is that you can create additional jobs, 5,000 more at the Navy Yard. But if those persons choose to live in the suburbs, the city gets no tax benefit except incidental taxes from sales and those kinds of taxes, but their income taxes will still be taxed by Richmond and Annapolis, and you won't help the city economically if those states get the tax money. How will you address that? You have it for the lower-level jobs, income jobs, but not for middle-class jobs.

DIRECTOR RAINES: Well, the President's plan is premised on incentives for activity in the District, the jobs credits are for people who live in the District. And, therefore, in order to qualify for the credit, you must live in the District. And that will go up to jobs paying as much as $28,000. And so that is an incentive that will create jobs in the city as well as tax revenue.

With regard to the businesses, the businesses have to be in the city. And the businesses that are going to be taking advantage of the investment credits or that will benefit from the private activity bonds or other activities of the Economic Development Corporation will be taxpaying entities in the city, so that the plan that the President announced today is heavily focused on activity in the city that will be taxable. The President then went beyond that to say in addition to this effort and in addition to the efforts in helping the city balance its books, the government was doing all we can to maintain economic activity in addition to that.

Q If I could just follow up on the business aspect of it, the business creates or expands to an extra jobs, and 75 percent of those people live in the suburbs, the business pays taxes in the city, but those 75 percent would still pay taxes to the suburban states, is that correct?

DIRECTOR RAINES: They will continue to pay personal taxes where their personal taxes are levied under the various codes. But I don't think there's any denying that 100 new jobs in the city or 5,000 new jobs in the city are all going to be helping to renew the economics of the city, that this city needs to have that kind of economic momentum to encourage other investment. The city saw that momentum in the 1980s and we need to revive it in the 1990s.

Q You give a $2 million cost on the private activity bonds over five years. How does that translate into volume? How many millions of bonds would that be?

DEPUTY ASSISTANT SECRETARY THOMPSON: It depends. It's really hard to say at this point. One of the questions, it's primarily private activity bonds are geared to project-based financing. We're looking at this to be able to provide fairly substantial leverage in order to be geared to individual projects, but it's very difficult to say right now until those projects actually come in.

Q So you're not sure then?

DEPUTY ASSISTANT SECRETARY THOMPSON: It's hard to say. What do you think, Ed, when you start talking about $2 million -- cost. It's very difficult to say.

DIRECTOR RAINES: We'll let Treasury answer this one. We don't want to guess.

DEPUTY ASSISTANT SECRETARY THOMPSON: It's very difficult to say.

Q Is it safe to say under $100 million private activity bonds?

DEPUTY ASSISTANT SECRETARY THOMPSON: I would say at the outset, yes. I would say that that's a safe level.

Q Can you guys walk through the technical explanation for the difference between what your scoring costs would be and what the value of the incentives is? Like $250 million versus $235 million -- what's the difference?

DIRECTOR RAINES: Most of that difference is simply that you can sign up for a credit during the five-year period, but that the actual use of the credit might move over into the sixth or seventh year and we do five-year estimates. So the commitment level will be at the full $300 million that we talked about, but some of the costs will fall outside the five-year period. So -- and also, we assume that some people will sign up for projects and some projects won't happen, and so you'll have some lapse during the time period.

Q Do you consider all of these permanent, or do they trigger off?

DIRECTOR RAINES: These are all permanent --

DEPUTY ASSISTANT SECRETARY THOMPSON: That's right.

DIRECTOR RAINES: Permanent changes.

DEPUTY ASSISTANT SECRETARY THOMPSON: That's right. And the important thing is, the EDC is there for 10 years, that it's going to be continuing its activity. What's important here is this thing was created to provide a structure for focused consideration of economic development issues in the District -- something that it really had to have before. So it's really an opportunity for the private sector and the public sector to blend together to focus on these precise question -- how do you develop the District economy.

Q Just a couple of questions. One, the President, in the tax side of his budget proposal, had a number of proposals to expand the provisions for empowerment zones and to create the financial incentives of the CDFI provisions. Is there anything in here that is different that goes beyond or doesn't go as far as those provisions? And then a second more technical question. In the budget, I believe this was originally scored as $260 million, and now it seems to have gone up $300 million. Is that correct, and if so, what's the difference?

DIRECTOR RAINES: The biggest difference is the capitalization level that we have here, accounts for the biggest difference than what we had before. We wanted to ensure that the jobs credit would also be available in some form to nonprofit organizations since they are such a big part of the local economy, so that we have provided funds to let the Economic Development Corporation mimic that for nonprofits who don't pay taxes, and they could have that same incentive.

But with regard to comparisons to empowerment zones, it's a little difficult. What we tried to do is to take the best features that we thought would work the best in the District and tune them to have the maximum impact in the District. So we drew from the same menu, but there isn't an exact walk between one and the other. This is really a unique combination of things that's designed for the District.

Q How are these 5,000 Navy Yard jobs coming about?

DIRECTOR RAINES: The Navy is consolidating its facilities as part of the defense downsizing, and they're closing facilities in a variety of places and then moving jobs around. What this means is that the Navy is moving 5,000 jobs into the city from outside.

Q And then, for the other part of the President's plan, is he going to have another statement when this other thing gets going we've been hearing so much about in terms of taking over parts of the D.C. government --

DIRECTOR RAINES: The President's already made statements on that.

Q So there's not going to be anything else? This is it -- that you're planning at this point?

DIRECTOR RAINES: I'm hurt that you don't think that my speaking on this is an adequate substitute for the leader for the free world. (Laughter.)

Q No, it's not that, but there are a number of issues -- there is some disagreement over the federal payment. There's some disagreement in Virginia over whether you're going to build at Lorton. And I guess we were looking for something that was kind of concrete, as saying this is the position of the White House and we don't plan to change it.

DIRECTOR RAINES: I don't think we could be more concrete. You must not have been there when I spent three hours speaking to the community on this.

Q Well, maybe you are just very diplomatic, because I got the impression there was room for maneuver when you spoke to Chairman Davis's committee.

DIRECTOR RAINES: No, our plan is before Congress now. A senior member of Congress has taken it as his top legislative priority to move that bill through. The Speaker of the House has asked him to make it a top priority. Both Houses have agreed with the White House that one of five task forces they would set up on important issues would be on the President's D.C. plan.

If you look at what's going on on the Hill, this is about the biggest legislative action that's actually occurring up there. I don't think there's any lack of activity. This one is actually a real bill, being put together by a real committee, that is intent on passing something. So I think we're in very good shape, and we're quite happy with the bipartisan response the President's plan has gotten. But as in any plan, there will be people who would say, I changed this and I changed that, and that's what the legislative process is all about, and I think Mrs. Norton and Congressman Davis are approaching that in a very logical and good fashion.

Q Regarding the jobs credit, am I correct in interpreting that large corporations like Bell Atlantic would benefit from this similarly. This isn't for new jobs, this is for jobs that are already in place?

DIRECTOR RAINES: No, this is for new hires. New hires of D.C. residents, so that if they hire a D.C. resident, whether they are a large company or a small company, they would be eligible for the credit if the individual met the criteria for the credit. And the major criteria is that they -- is where they live and what their pay level would be.

Q How long do they have to be a D.C. resident? Can I move here next week and get the credit?

DIRECTOR RAINES: As long as you keep living here.

Q And what's the income range?

DIRECTOR RAINES: Up to $28,000.

Q Up to $28,000?

DEPUTY ASSISTANT SECRETARY THOMPSON: Right, and as some indication that this intended to be focused on new jobs, it's a first year credit, so it really is geared toward that new hire -- so to bring in people at the low and moderate income levels who are District residents and with District employers.

Q The seven-member board that is to be chosen -- when will that be chosen? And will the requirement be the same as the Control Board that they all be D.C. residents?

DIRECTOR RAINES: They'll be chosen after the corporation's established, after the legislation is passed. And they will be all D.C. residents.

Q The other question -- the President referred to --what is the organization that is now being privatized and gave $18 million for schools construction -- Connie Lee?

DIRECTOR RAINES: Connie Lee.

Q I have trouble with the acronyms. Now, Sallie Mae is being privatized too, right?

DIRECTOR RAINES: That's right.

Q Now, do they also -- do we have some overflow from their privatization process that can be directed toward D.C.? And if -- why don't they do that? And how much of that is there?

DIRECTOR RAINES: The reason that we had funds from Connie Lee is that we owned stock in Connie Lee -- the Education Department owned stock. And so, when they went private, they had to buy our stock. We don't own any stock in Sallie Mae.

Q And my final question is, is there a model of other cities -- I mean, you are our state for this particular purpose -- is there a model of another state to a city that has done something similar, which is somewhat like -- that we can use? Or is the model -- I don't know if it's considered applicable -- the Pennsylvania Avenue Development Corporation?

DIRECTOR RAINES: No, it is not -- the PADC was very much focused on physical development in one area, in a combination of public and private physical development. This is really an amalgam of ideas that have worked in other places. This is -- we hope will work like the best of the empowerment zones.

Q Cite one place that it has really worked that you use as an example. We could call them --

DIRECTOR RAINES: Well, I think, the President often cites Detroit and the commitments that they've gotten from the private sector behind their --

Q Renaissance City?

DIRECTOR RAINES: Well, it's beyond Renaissance City and -- where they have got a large amount from their private sector. But it also borrows some of the techniques that New York State has had in its Public Development Corporation. This is really -- what we asked the Treasury to do was to look at the best ideas out there and let's see if we can put them all together in a mechanism for the city.

Q You include no individual broad tax relief. Some of the residents have said that that's needed to keep the flight of the middle class from getting larger. Do you intend to provide this sort of relief, and-or do you support that idea?

DIRECTOR RAINES: Well, our position on that has been that we have not yet seen a plan that we think is affordable and that is sufficiently targeted in terms of the benefit to the city. Most of the benefit of the plans that we have seen would go to people like me who live in the city already and would not have my activity influenced by the tax reduction. That causes the cost per benefit to be very high. We believe this plan -- that the cost-benefit ratio is quite good, and we get a lot for the dollars that are being invested.

Q A quick follow-up -- on the targeted jobs tax credit or the D.C. jobs credit, one of the big criticism of this sort of thing is that people say that people get replaced. Eligible low-income workers get a job, whereas people who previously had a job who aren't eligible for the credit get dumped out. Why do you think this will create more jobs for the District of Columbia?

DIRECTOR RAINES: Well, that criticism I haven't actually heard of these credits. The criticism I've heard more is that they've been insufficiently targeted. And this one is quite targeted and building on our past experience.

We think that this will provide a real incentive for employers to hire D.C. residents, whereas today they can be relatively indifferent to the residence of their employee. What we're saying is that for a worker whose making less than $28,000 a year -- and there are a lot of jobs in this city that fit into that category -- that they can get a $4,000 tax credit in that first year. And so, whatever concerns they might have about training or anything else, this credit will go to help offset that cost. So we think it should be a very powerful incentive.

Q The $28,000 would be the ceiling for the moderate income?

DIRECTOR RAINES: That's right.

Q My question is how quickly do you think people might be able to actually see the manifestation of this proposal? If it were approved by Congress in its present form, how long would it take for the economic benefits to be visible in the city?

DIRECTOR RAINES: Well, a lot of that, I think, is going to depend on how we rally the business community. These credits are structured in a way that they could be used quite quickly in that there's not -- once the corporation's up and running, there's not a lot of bureaucracy and things to have to go through. And the only act by the employer is really going to be to make the hiring decision. And it will not be that complicated.

And on the capital credit, it's a very powerful capital credit. What it says is that if the -- if you're making a loan that the corporation is endorsing -- that you can get a tax credit equal to 25 percent of the investment, either equity or a loan. That's a very, very powerful incentive. And I think that the real issue for the corporation is going to be in how it is being sufficiently selective so they don't use up the credit on things that don't produce the biggest bang for the buck. So I think these are very powerful tools that the corporation is going to have that will make an enormous difference.

The $95 million that, I think, that we are estimating for the capital credit is almost $400 million of investment that would be leveraged by it. And for the investor, it's very big.

Q But the corporation is not going to oversee the tax incentives, though. Who's going to oversee that? And how much is that going to cost? I imagine a separate -- who is going to oversee who gets the tax incentives because there --

DIRECTOR RAINES: The job credits?

Q Yes. There are qualifiers, like for certain projects it says certain equipment costs. Who's going to determine which equipment --

DEPUTY ASSISTANT SECRETARY THOMPSON: You're talking about the additional expensing.

Q And the D.C. Capital Credit as well.

DEPUTY ASSISTANT SECRETARY THOMPSON: Well, let's talk about the additional expensing first. The expensing is something that IRS does all the time. So, it would be part of their regular course to look at the expensing and what qualifies depending on their regulations.

As far as the job credits go, that would be similar to how we handled the -- credit or whatever. That's administered right now on an overall basis by the IRS and the folks who work with the tax code.

The D.C. Capital Credit is a little different. The Capital Credit, though, because it's a project based credit and it's going to be competitively administered, that's something that the Economic Development Corporation is going to have to develop guidelines for, and it's going to have to go through individual projects to determine which best suits the needs of the District of Columbia.

Q A larger budget question, I can't let you escape without one. You've been doing a lot of outreach on the idea of a CPI panel. Are you ready to say that you found no consensus on that and the chances of the President endorsing that or the formation of that is probably unlikely?

DIRECTOR RAINES: We really haven't come to a conclusion yet. And our conversations continue even today. And so we don't really have a conclusion yet.

Q Did you find sufficient opposition or concern that you think that you think that in that amount of time in those conversations that you had that it's problematic?

DIRECTOR RAINES: Well, I think the issue from the beginning has been one in which people have been looking for broad-based consensus. And if it were -- if the spot of broad-based consensus were obvious, we could have all gotten there right away. So we have found an array of opinion, and we are now trying to see where do we go based on that array of opinion. But we're still out and talking to people.

Q Are you talking to people about alternatives to a panel?

DIRECTOR RAINES: We have been following up on suggestions from members of Congress that we look at various means of dealing with the inaccuracies or lack of accuracy in the CPI as a measure of cost of living. So we have been testing their ideas and we've been testing other ideas all along, and we're still sorting out what we think we've heard.

Q Do you think this plan will help D.C.'s very dismal credit rating?

DIRECTOR RAINES: Well, if our plan is successful, the combined effect should be very beneficial to the creditworthiness of the city if we can stabilize the city's finances and if we can improve the functioning of its private economy, that should both be positives in the assessment by rating agencies of the creditworthiness of the city.

Q But that would take years to come to fruition, right? You don't see a bond rating change for years.

DIRECTOR RAINES: You know, I was in that business for a long time, and depending on how rapidly the city gets its budget in balance and whether or not we can take advantage of some positive trends that are already occurring, it could be a matter of years, but not forever for --

Q But, realistically, at least five years.

DIRECTOR RAINES: I don't know that that's true. It depends -- one of the reasons for the city to balance its budget this year is to get -- let's get this process moving. And I've seen it happen in cities in less than five years.

Q I was unclear about the President's -- the Navy move. Is it now the policy of the administration that the President is on record, or this administration, to stop agencies who want -- government agencies who want to move out of the District and say, no, I want you to stay in the District of Columbia?

DIRECTOR RAINES: We've had out a policy on that for a while.

Q What is it?

DIRECTOR RAINES: That our preference is that if agencies are moving, that if they can move in the city, it's our preference.

Q But will you actually stop agencies who, like the SEC, wanted to leave -- will you actually stop agencies and say, no, we want you to stay here because we want you to remain --

DIRECTOR RAINES: This is Ellen Seidman, who is a Special Assistant to the President.

SPECIAL ASSISTANT SEIDMAN: Yes, the answer is yes. You notice the SEC is still here. Several Treasury agencies have faced a decision on whether to move and where, and recently they've made the decision to stay. This is always a tricky decision because there are people who would like them to move elsewhere, but it's the policy of this administration that they stay here.

Q Well, can the President actually forbid them from moving, saying, well, we will not --

SPECIAL ASSISTANT SEIDMAN: You know, this is not the President's decision alone to make. There are folks in other places who help make these decisions. It's this President's policy, however, that to the extent he can, these people will stay here.

Q And then I have a question, Mr. Raines, about -- you keep on saying that the Norton tax plan is not affordable. That's sort of a litany -- sort of a mantra, excuse me.

DIRECTOR RAINES: But you keep asking the same question. (Laughter.)

Q Let me be a little more creative. Or maybe I've already asked the question so I beg forgiveness for being repetitive. Will the President veto the tax bill that Norton has proposed, or will he literally pick up the phone and tell Democrats not to vote for it because it is "not affordable"? What is the level of animosity toward this bill?

DIRECTOR RAINES: I don't think you would describe our view as animosity. We have said all along that we are prepared to look at alternative proposals that are complementary to the President's plan, and we'll continue to do so. And if there is a complementary proposal we will support it. If we don't believe it's complementary or affordable, then we won't be able to support it.

Q Would you veto --

DIRECTOR RAINES: We don't make veto threats in the absence of knowing something more about the substance.

Q Can I ask an informational question? Who is the senior Republican who is in charge of shepherding this legislation that you referred to -- nameless senior Republican.

DIRECTOR RAINES: Tom Davis is the chairman of the committee of the relevant committee. He has been quite specific that it is his intent to have legislation this year.

Q When are you going to send the legislation to Congress on the economic stimulus package and on the rest of the D.C. proposal?

DIRECTOR RAINES: We have already been working with the committee on the bill specifications, and it may well be that there will simply be a joint piece of legislation developed as opposed to our sending up our own piece of legislation. But we've been working with them from well before my hearing to help them in their own legislative process.

Q Is that Ways and Means, or is that only the D.C. committee?

DIRECTOR RAINES: It's our anticipation that Chairman Davis's committee will have the primary jurisdiction, and that he and the leadership will work out what, if any other, referrals will need to be made.

THE PRESS: Thank you.

==================== ATTACHMENT 1 ===================
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Delivered-By-The-Graces-Of: White House Electronic Publications
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Keywords: Briefing, District-Of-Columbia, Economy, Fiscal-Policy, Government,
 Labor, Legislation, Legislative-Process, Mid-Atlantic-Region, Monetary-Policy,

 New-York, Organization, Social, South-Region, Staff-Briefing, Urban, Virginia

================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Thomas_Skelly (Thomas_Skelly@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 6-MAY-1997 06:09:00.00

SUBJECT: 30 years is a long time

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
We looked back at education funding since 1966. I'll fax the sheet.

Some numbers are probably missing (e.g., Vocational Rehabilitation prior to 1980 creation of the Department) or distorted (e.g., credit reform in 1992, extra amounts for "forward funding" in the mid-70s, Pell appropriations that lead to shortfalls in one year and supplementals in the next, Sallie Mae prepayment of debt in 1994, and the "FFEL reestimate" in the 1997 column of this year's budget). And we haven't constructed a table of "discretionary" only for recent years. But it looks like there are two years with a BA increase of more than $3.2 billion in Department of Education programs, when you combine discretionary and mandatory (1985 and 1995).

Data from the OMB Historical Tables and Budget documents for Department of Education funding, which leave out Head Start and a few training programs,

We and NCES have no data on tax expenditures other than the ones included in table 354 in the Digest. NCES asked a consultant to prepare a few papers on the topic; there is no data base.=================== ATTACHMENT 1
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Content-description: cc:Mail note part
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RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Maureen_McLaughlin (Maureen_McLaughlin@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:28-MAY-1997 10:05:00.00

SUBJECT: Senate Call of Note

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:

fyi

______________________________ Forward Header

____

Subject: Senate Call of Note

Author: Jon Oberg at WDCB03

Date: 5/28/97 10:54 AM

Marianna Pierce called last week to advise that Sen Kennedy had met

with Bill Arcenaux (Sallie Mae chairman) about the interest rate

change on new student loans that is scheduled in current law to

change

July 1, 1988, per Sec 427A(h). Sallie Mae (like the entire FFEL

lending community) says the shift from the 91-day T-bill rate plus

3.1%, to the "bond equivalent rate of the securities with a

comparable

maturity" plus 1.0%, will not provide enough margin. Sen Kennedy did

not say he was convinced by the argument, but he would be willing to discuss a change if lenders would come up with something in return to make loans more affordable for low-income borrowers.

Marianna asked ED to reflect "creatively" on what should be asked in return, if there are future discussions (which seem likely).

She also suggested that the next few months of EASI will determine whether Congress seeks a new organizational arrangement for OPE, such as a mutual benefit corporation or a performance based organization. She said much is riding on EASI.

=================== ATTACHMENT 1 ===================
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 by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IJEG2K3WEO0020YZ@PMDF.EOP.GOV> for
 shireman_r@a1.eop.gov; Wed, 28 May 1997 11:11:03 -0500 (EST)
Received: from vader.ed.gov ([165.224.217.43])
 by STORM.EOP.GOV (PMDF V5.1-7 #6879)
 with ESMTP id <01IJEFWMAKI0001B1R@STORM.EOP.GOV> for shireman_r@a1.eop.gov;
 Wed, 28 May 1997 11:07:01 -0400 (EDT)
Received: from smtpgwy1.ed.gov (smtpgwy1.ed.gov [165.224.217.37])
 by vader.ed.gov (8.8.5/8.8.4) with SMTP id LAA16214 for
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Received: from ccMail by smtpgwy1.ed.gov (IMA Internet Exchange 1.04b)
 id 38c499d0; Wed, 28 May 1997 11:05:01 -0400
Content-description: cc:Mail note part
================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:31-MAY-1997 09:00:00.00

SUBJECT: Re:

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Bob - Thanks. This is helpful. - tom

>Message Creation Date was at 30-MAY-1997 14:35:00

>

>In the 1993 reforms, direct loan supporters tried to make sure that the

lower

>taxpayer cost of the program translated into lower borrower costs, too.

FFEL

>backers balked, however, arguing that a differential would tilt the

playing

>field, forcing schools to go into direct lending not because they prefer

the

>program design, but because of the lower cost for students. Their

arguments

>won out, and the student costs were equalized, or so we thought.

>

>Prior to 1993, lenders rarely offered lower interest rates than the

maximums

>set by law. Indeed, most observers treated the maximums as if they were

the

>government-set rate, because that was the reality in the marketplace.

Now,

>Sallie Mae has offered borrowers who make payments on time and/or through

>payroll deduction a lower rate. Other lenders offer to pay a portion of

the

>origination fee on loans. Some of this price competition is phony:

Guaranty

>agencies have lobbied Congress for administrative payments, then turn

around

>and essentially use that Federal money to offer lower fees on loans. But

>lender reductions, while certainly aided by Federal subsidies, do result

in

>lower profit margins, meaning less money in the banker !,s pocket.

>

>The proposal in the FY 1998 Budget does attempt to address this issue in

two

>ways. First, it reduces lender returns, arguing that the price

competition

>proves that there are excess profits that can be squeezed out of the

system.

>Second, it prohibits discriminatory or predatory price-cutting --

essentially

>any effort to "cream" by offering a benefit only to students from a

>particular

>school, for example.

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
RFC-822-headers:
Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IJIKJGXW6O005Y6B@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Sat,

31 May 1997 10:02:21 -0500 (EST)
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IJIKJFIYNK006LAA@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov; Sat,
31 May 1997 10:02:19 -0500 (EST)
Received: from mothra.rs.itd.umich.edu by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA03611; Sat, 31 May 1997 10:02:17 -0400

Received: from [198.108.57.14] by mothra.rs.itd.umich.edu (8.8.5/2.2)
id KAA26139; Sat, 31 May 1997 10:01:54 -0400 (EDT)
X-Sender: tombutts@t.imap.itd.umich.edu
================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 2-JUN-1997 14:26:00.00

SUBJECT: Price Competition

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
MIME-Version: 1.0

Content-type: text/enriched; charset=us-ascii

Content-transfer-encoding: 7BIT

<smaller>PRICE COMPETITION - DRAFT 6/1/97

In the 1993 student loan reform debate, direct loan supporters tried to

make sure that

the lower taxpayer cost of the program translated into lower borrower

costs, too.

FFEL backers balked, however, arguing that a differential would tilt

the playing

field, forcing schools to go into direct lending not because they

prefer the

program design, but because of the lower cost for students. It was

agreed

that students in both programs should have equal terms and conditions, or so it was thought.

Prior to 1993, lenders rarely offered lower interest rates than the maximums set by law. Indeed, most observers treated the maximums as if they were the government-set rate, because that was the reality in the marketplace. Now, Sallie Mae has offered borrowers who make payments on time and/or through payroll deduction a lower rate. Other lenders offer to pay a portion of the origination fee on loans. Some of this price competition is phony: Guaranty agencies have lobbied Congress for administrative payments, then turn around and essentially use that Federal money to offer lower fees on loans. But

lender reductions, while certainly aided by Federal subsidies, do result in

lower profit margins, meaning less money in the bankers pocket.

Presently, the loan industry is lobbying to eliminate a scheduled reduction in

interest rates that will save both FFELP and FDSLP students an estimated

$3 billion over the five year period starting July 1, 1998. They want to prevent

all students from receiving a serious interest reduction while maintaining their

right to use federal subsidies to offer selective reductions to some students at

selected institutions.

The proposal in the Administration's FY 1998 Budget does attempt to address this issue in two ways. First, it reduces lender returns, arguing that the price competition proves that there are excess profits that can be squeezed out of the system. Second, it prohibits discriminatory or predatory price-cutting -- essentially any effort to "cream" by offering a benefit only to students from a particular school, for example.

The HEA reauthorization should assure that the two programs compete on the basis of service, not the capacity of the FFELP program to abuse the use of mandatory federal subsidies obtained through the legislative process rather than the open market.

</smaller>

Thomas A. Butts

Associate Vice President for University Relations

University of Michigan

202-554-0578, FAX 202-554-0582, tombutts@umich.edu=================== ATTACHMENT 1
===================

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
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id <01IJLOEW375C0000FP@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Mon,

02 Jun 1997 15:25:34 -0500 (EST)
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IJLOEUQ63K0000JP@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov; Mon,
02 Jun 1997 15:25:32 -0500 (EST)
Received: from mothra.rs.itd.umich.edu by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA03597; Mon, 02 Jun 1997 15:25:27 -0400

Received: from [141.211.178.146] by mothra.rs.itd.umich.edu (8.8.5/2.2)
id PAA13392; Mon, 02 Jun 1997 15:25:13 -0400 (EDT)
X-Sender: tombutts@t.imap.itd.umich.edu
================= END ATTACHMENT 1 =================

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2017-1075-F

Bucket: Default

Creation Date: 1997-06-03

Subject: Re: STUDENT LOAN INTEREST RATE ALERT - Reply

Creator: ElmendorfE ElmendorfE@aascu.nche.edu@INET@LNGTWY [UNKNOWN]

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Fritz_Edelstein (Fritz_Edelstein@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 5-JUN-1997 11:45:00.00

SUBJECT: Higher Ed Tax Meetings

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:

The following two meetings have been scheduled with groups (as listed)
to discuss strategies for getting the message out and engaging people
on the new revised tax proposals for higher education including Pell.
Please attend if you can and let me or Susan know if you are. thank you.

Today, Thursday, June 5 at 3 pm in the Secretary's Conference Room.

Invited: NAICU, ACE, AACC, ACCT, NASFAA, USAA

Tomorrow, Friday, June 6 at 9:30 AM in the Secretary's Dining Room
(will let you know if the time changes)

Invited: AFT, NEA, AFL-CIO, SEIU, AFSCME

In the planning stages is another meeting which will include Sallie
Mae, other banker types and the private sector business groups. Will

have more information on that later today.

Call if you have any questions. My number is 401-3595.=================== ATTACHMENT 1
===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
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id <01IJPQ46DM1S000QNA@PMDF.EOP.GOV> for shireman_r@a1.eop.gov; Thu,
05 Jun 1997 12:57:23 -0500 (EST)
Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IJPQ44V83K000Q4E@PMDF.EOP.GOV> for
shireman_r@a1.eop.gov; Thu, 05 Jun 1997 12:57:20 -0500 (EST)
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Thu, 05 Jun 1997 12:56:49 -0400 (EDT)
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by vader.ed.gov (8.8.5/8.8.4) with SMTP id MAA10611 for
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Received: from ccMail by smtpgwy1.ed.gov (IMA Internet Exchange 1.04b)
id 396ef5f0; Thu, 05 Jun 1997 12:54:55 -0400
Content-description: cc:Mail note part
================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 5-JUN-1997 07:47:00.00

SUBJECT: 2nd draft

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
MIME-Version: 1.0

Content-type: text/enriched; charset=us-ascii

Content-transfer-encoding: 7BIT

<smaller>Bob - Know how busy you must be but would appreciate any final

thoughts you might have on this. Plan to send it out on the e-mail

lists and use as Hill handout. Hope to get out today or tomorrow.

Thanks. - tom

PRICE COMPETITION - DRAFT 6/4/97

In the 1993 student loan reform debate, direct loan supporters tried to

make sure that

the lower taxpayer cost of the program translated into lower borrower

costs, too.

FFEL backers balked, however, arguing that a differential would tilt

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field, forcing schools to go into direct lending not because they prefer the program design, but because of the lower cost for students. It was agreed that students in both programs should have equal terms and conditions, or so it was thought.

Prior to 1993, lenders rarely offered lower interest rates than the maximums set by law. Indeed, most observers treated the maximums as if they were the government-set rate, because that was the reality in the marketplace. Now, Sallie Mae has offered borrowers who make payments on time and/or through payroll deduction a lower rate. Other lenders offer to pay a portion of the origination fee or reduce interest on loans. Some of this price competition is highly questionable: Guaranty agencies have lobbied Congress for administrative payments, then turn around and essentially use that Federal money to offer lower fees on loans. But lender reductions do result in lower, but still acceptable profit margins. In addition, some secondary markets use inexpensive Federal tax exempt bond benefits to offer targeted preferences to borrowers. All of this would not be a policy problem if lender and guarantee agency revenues were determined by the market place and not by the Congress through guaranteed income as well as the guarantee default payments.

Presently, the loan industry is lobbying to eliminate a scheduled reduction in

interest rates that will save both FFELP and FDSLP students and parents an

estimated $3 billion over the five year period starting July 1, 1998. This was

one of the student benefits included in the 1993 act. The industry wants to

prevent all students from receiving a serious interest reduction while maintaining

its right to use federal subsidies to offer targeted reductions to some students at

selected institutions. They claim not to like the new method for calculating

interest which has been on the books since 1993. If that is the case they should

be calling for a $3 billion reduction in interest rates using the current method.

The Administration's FY 1998 Budget does attempt to address student cost issues in two ways. First, it reduces lender returns, arguing that the price competition proves that there are excess profits that can be squeezed out of the system. Second, it prohibits discriminatory or predatory price-cutting -- essentially any effort to "cream" by offering a benefit only to students from a particular school, for example.

The HEA reauthorization should assure that the two programs compete on the basis of service, not the capacity of the guarantee program to use mandatory federal subsidies obtained thought the legislative process to offer selected benefits to a few students.

Price competition creates an inequitable distribution of federal

benefits to

students in both the government guaranteed and direct loan programs.

Federal subsidies should provide the lowest possible cost to all

student borrowers.

</smaller>

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

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id <01IJPHDAIKK0000P0O@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Thu,

05 Jun 1997 08:47:24 -0500 (EST)
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IJPHD906LS000OR2@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov; Thu,
05 Jun 1997 08:47:22 -0500 (EST)
Received: from mothra.rs.itd.umich.edu by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA13178; Thu, 05 Jun 1997 08:47:20 -0400

Received: from [192.195.231.206] by mothra.rs.itd.umich.edu (8.8.5/2.2)
id IAA22716; Thu, 05 Jun 1997 08:47:17 -0400 (EDT)
X-Sender: tombutts@t.imap.itd.umich.edu
================== END ATTACHMENT 1 ==================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Jon_Oberg (Jon_Oberg@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 6-JUN-1997 17:13:00.00

SUBJECT: Goodling Sponsored Meeting for Sallie Mae

TO: Patricia A. Smith (Patricia A. Smith@eop [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:
Quick summary of the Hill meeting set up by Goodling to hear the Sallie Mae pitch for eliminating the current-law-scheduled July 1, 1998, interest rate change from 91 Day T-bill rates plus 3.1% to bonds with comparable maturities plus 1.0%:

Present at the meeting:

Lender interests: Bill Rachal, SM; Shelly Repp, SM, Sara Davis, SM; Paul Wozniak, Paine Webber; John Dean, CBA; Bill Nelson and Barbara Benison, secondary market agencies.

Higher Ed community: Barmak Nassirian, AASCU; Terry Hartle, ACE.

Congressional Staff: Vic Klatt, Sally Stroup, George Conant (Goodling); Mark Zuckerman, Marshall Grigsby (Clay); David Evans (Kildee) Scott J., Jenny Smulson (Jeffords); Marianna Pierce (Kennedy); Margot Schenet (CRS)

Department of Education: Jon Oberg (OLCA)

Vic Klatt chaired, asking for Sallie Mae to make its presentation, to be followed by reaction from the Higher Ed community and the Department of Education. Shelly Repp said reconciliation was a good vehicle to solve their problem, to use the savings identified to return to the current formula; Barbara Benison said that would be consistent with the legislative history; Paul Wozniak had charts comparing 91 day and 10 year bond interest rates, saying it was the volatility of the longer term bonds that was the problem.

Barmak N. said AASCU wanted to fix the problem if there was a problem.

He said he couldn't understand the presentation very well. He said it was difficult to determine if this was a financial instrument problem or a yield problem, and it would be advisable for Sallie Mae to sort this out. Terry H. did not speak.

I said we had not previously been brought into this. I asked if they had a specific legislative proposal (they do not). I asked if the volatility issue could be solved by the usual means of hedging to limit risks inherent in volatility. Bill Rachel and Paul Wozniak said even with hedging, they have a 130 basis points problem. I asked for a write-up of their analysis as to why there would be a failure of the capital markets that would preclude hedging as a solution.

Vic asked what the Adminstration's position was. I said as far as reconciliation is concerned, we have a budget agreement and a budget instruction to which we are all bound, and it does not provide for this issue.

David Evans said, as a Democrat, he would be delighted to have the majority try to push this through, since it would increase interest costs to students and we would have a repeat of the 104th Congress. He chastized the lender interests for not having long ago prepared a proposal with offsets that CBO could score within the budget agreement. John Dean replied that a crisis was coming, that loan availability would be cut back, that Texas and California already were relying on Lenders of Last Resort, and that he didn't care much for what CBO scoring dictated for budget reconciliation.

Vic halted the meeting after about 75 minutes by saying that there was no point in continuing. He said he was under intructions from his Chairman to solve the problem quickly, but that it was obvious that this meeting had identified no solution. There were no instructions given to anyone and no further meetings scheduled. I have the handouts.

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

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by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IJTSAPZMQ800171J@PMDF.EOP.GOV>; Sun,

08 Jun 1997 10:43:04 -0500 (EST)
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08 Jun 1997 10:41:09 -0400 (EDT)
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id 39ac4310; Sun, 08 Jun 1997 10:39:45 -0400
Content-description: cc:Mail note part
================= END ATTACHMENT 1 =================

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2017-1076-F

Bucket: Default

Creation Date: 1997-06-08

Subject: final draft

Creator: tombutts tombutts@umich.edu@INET@LNGTWY [UNKNOWN]]

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 8-JUN-1997 11:56:00.00

SUBJECT: 2nd final draft

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
MIME-Version: 1.0

Content-type: text/enriched; charset=us-ascii

Content-transfer-encoding: 7BIT

<smaller>FEDERAL STUDENT LOANS - PRICE DISCRIMINATION - DRAFT 6/8/97

THE PROBLEM --In the 1993 student loan reform debate, direct loan supporters tried to make sure that the lower taxpayer cost of the program translated into lower borrower costs, too. Government guaranteed loan (FFEL) backers disagreed, however, arguing that a differential would tilt the playing field, forcing schools to go into direct lending not because they prefer the program design, but because of the lower cost for students. It was agreed

that students in both programs should have equal terms and conditions, or so it was thought.

Prior to 1993, lenders rarely offered lower interest rates than the maximums set by law. Indeed, most observers treated the maximums as if they were the government-set rate, because that was the reality in the marketplace. Now, Sallie Mae and others have offered borrowers who make payments on time for an extended period and/or through payroll deduction a lower interest rate. Some lenders offer to pay a portion or all of the origination fees. Some of this so called "price competition" is highly questionable: Guaranty agencies have lobbied Congress for administrative payments, then turn around and essentially use that federal money to offer lower fees on loans. These lender reductions result in lower profit margins which, however, remain at acceptable levels. In addition, some secondary markets use inexpensive federal tax exempt bond benefits to offer targeted preferences to borrowers. All of this would not be a policy problem if lender and guarantee agency revenues were determined by the marketplace and not by the Congress through guaranteed income as well as guaranteed default payments.

Presently, the loan industry is actively advocating a proposal which would eliminate a scheduled reduction in interest rates that will save both FFEL and direct loan students and parents an estimated $3 billion over the five year period starting July 1, 1998. This was one of the student benefits included in the 1993 Student Loan Reform Act. The effect of the loan industry proposal would be to prevent all students from receiving a significant interest reduction while maintaining its right to use federal subsidies to offer targeted reductions to some students at selected institutions. They claim not to like the new method for calculating interest which has been on the books since 1993.

If that is the case they should be calling for a $3 billion reduction in interest rates using the current method.

The loan industry proposals for reauthroization of the Higher Education Act (HEA) do not recommend reductions in insurance premiums or origination fees for students. However, it is reported to now be calling for using the interest direct loan students will pay as a result of the $3 billion interest rate increase to lower origination fees for all students while the industry pockets the remainder for its profits. Students would still loose an additional $1.35 billion under this plan. Also, contrary to claims of FFEL advocates, the CBO, OMB and private "Blue Chip" forecasters all project that the new method of interest calculation will provide better terms for student and parent borrowers in both programs.

The Administration's FY 1998 Budget addresses student cost issues in two ways. First, it reduces lender returns, arguing that price discrimination proves that there are excess profits that can be squeezed out of the FFEL system. Second, it prohibits discriminatory or predatory price-cutting -- essentially any effort to "cream" by offering a benefit only to students from a particular school, for example.

THE SOLUTION -- Price discrimination creates an inequitable distribution of federal benefits to students in both the government guaranteed and direct loan programs. Federal subsidies should provide the lowest possible cost to all student borrowers.

The HEA reauthorization should assure that the two programs compete on the basis of service, not the capacity of the guarantee program to use mandatory federal subsidies obtained thought the legislative process to offer selected benefits to a few students.

6/8/97

</smaller>

Thomas A. Butts

Associate Vice President for University Relations

University of Michigan

202-554-0578, FAX 202-554-0582, tombutts@umich.edu==================== ATTACHMENT 1
====================

ATT CREATION TIME/DATE: 0 00:00:00.00

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 08 Jun 1997 12:55:37 -0500 (EST)
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id <01IJTWX1F56O001G77@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov; Sun, 08 Jun 1997 12:55:36 -0500 (EST)
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(5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA07909; Sun, 08 Jun 1997 12:55:34 -0400

Received: from [198.108.57.26] by mothra.rs.itd.umich.edu (8.8.5/2.2)
id MAA25088; Sun, 08 Jun 1997 12:55:27 -0400 (EDT)
X-Sender: tombutts@t.imap.itd.umich.edu
================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 8-JUN-1997 18:34:00.00

SUBJECT: Re: 2nd final draft

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Thanks much. Is this simple enough for the uniformed? Might want to do a

second document targeted at those who know nothing about the issues. -

tom

>Message Creation Date was at 8-JUN-1997 16:35:00

>

>My suggestions in CAPS and [brackets]

>

>

>

>

>

> tombutts @ umich.edu

> 06/08/97 11:56:00 AM

>Record Type: Record

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>To: Robert M. Shireman

>cc:

>Subject: 2nd final draft

>

>MIME-Version: 1.0

>Content-type: text/enriched; charset=us-ascii

>Content-transfer-encoding: 7BIT

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><smaller>FEDERAL STUDENT LOANS - PRICE DISCRIMINATION - DRAFT 6/8/97

>

>

>THE PROBLEM --In the 1993 student loan reform debate, direct loan

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>program translated into lower borrower costs, too. Government

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>differential would tilt the playing field, forcing schools to go into

>direct lending not because they prefer [IT], but because

>of the lower cost for students. It was agreed

>

>that students in both programs should have equal terms and conditions.

>DELETE:

>or so it was thought.

>

>

>AT LEAST, EVERYONE ASSUMED THEY WERE EQUAL.

>Prior to 1993, lenders rarely offered lower interest rates than the

>maximums set by law. Indeed, most observers treated the maximums as if

>they were the government-set rate, because that was the reality in the

>marketplace. Now, Sallie Mae AND OTHERS USE ITS THEIR HIGH,

>TAXPAYER-GUARANTEED RETURN TO OFFER BORROWERS WHO

>JUMP THROUGH CERTAIN HOOPS a lower interest rate. Some lenders

>offer to pay a portion

>or all of the origination fees. Some of this so called "price
>competition" is highly questionable: Guaranty agencies have lobbied
>Congress for administrative payments, then turn around and essentially
>use that federal money to offer lower fees on loans. THE LENDER DISCOUNTS
>SUGGEST THAT PROFIT MARGINS remain at
>acceptable levels. AND some secondary markets use inexpensive
>federal tax exempt bond benefits to offer targeted preferences to
>borrowers. All of this would not be a policy problem if lender and
>guarantee agency revenues were determined by the marketplace and not by
>the Congress through guaranteed income as well as guaranteed default
>payments.
>
>
>Presently, the loan industry is actively advocating a proposal which
>would eliminate a scheduled reduction in interest rates that will save
>both FFEL and direct loan students and parents an estimated $3 billion
>over the five year period starting July 1, 1998. This was one of the
>student benefits included in the 1993 Student Loan Reform Act. The
>effect of the loan industry proposal would be to prevent all students
>from receiving a significant interest reduction while maintaining its
>right to use federal subsidies to offer targeted reductions to some
>students at selected institutions. They claim not to like the new
>method for calculating interest which has been on the books since 1993.
> If that is the case they should be calling for a $3 billion reduction
>in interest rates using the current method.
>
>

>The loan industry proposals for reauthroization of the Higher
>Education Act (HEA) do not recommend reductions in insurance premiums
>or origination fees for students. However, it is reported to now be
>calling for using the interest direct loan students will pay as a
>result of the $3 billion interest rate increase to lower origination
>fees for all students while the industry pockets the remainder for its
>profits. Students would still loose an additional $1.35 billion under
>this plan. Also, contrary to claims of FFEL advocates, the CBO, OMB
>and private "Blue Chip" forecasters all project that the new method of
>interest calculation will provide better terms for student and parent
>borrowers in both programs.
>
>
>The Administration's FY 1998 Budget addresses student cost issues in
>two ways. First, it reduces lender returns, arguing that price
>discrimination proves that there are excess profits that can be
>squeezed out of the FFEL system. Second, it prohibits discriminatory
>or predatory price-cutting -- essentially any effort to "cream" by
>offering a benefit only to students from a particular school, for
>example.
>
>
>THE SOLUTION -- Price discrimination creates an inequitable
>distribution of federal benefits to students in both the government
>guaranteed and direct loan programs. Federal subsidies should provide
>the lowest possible cost to all student borrowers.
>

>

>The HEA reauthorization should assure that the two programs compete on

>the basis of service, not the capacity of the guarantee program to use

>mandatory federal subsidies obtained thought the legislative process

>to offer selected benefits to a few students.

>

>

>6/8/97

>

></smaller>

>

>Thomas A. Butts

>

>Associate Vice President for University Relations

>

>University of Michigan

>

>202-554-0578, FAX 202-554-0582, tombutts@umich.edu

>

>

>

>

>

>The following attachments were included with this message:

>____

>TYPE : FILE

>NAME : 060812BB.TXT

>

>

>Subject: 060812BB

>MIME-version: 1.0

>Content-type: TEXT/PLAIN; CHARSET=US-ASCII

>A1-type: DOCUMENT

>

>RFC-822-headers:

>Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)

> id <01IJTWX2EIC0001FB1@PMDF.EOP.GOV> for "Robert M.

Shireman"@oa.eop.gov;

>Sun,

> 08 Jun 1997 12:55:37 -0500 (EST)

>Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)

> id <01IJTWX1F56O001G77@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov;

Sun,

> 08 Jun 1997 12:55:36 -0500 (EST)

>Received: from mothra.rs.itd.umich.edu by gatekeeper.eop.gov;

> (5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA07909; Sun, 08 Jun 1997 12:55:34

-0400

>Received: from [198.108.57.26] by mothra.rs.itd.umich.edu (8.8.5/2.2)

> id MAA25088; Sun, 08 Jun 1997 12:55:27 -0400 (EDT)

>X-Sender: tombutts@t.imap.itd.umich.edu

==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
RFC-822-headers:

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id <01IJUAVXA5N4001IV8@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Sun,

08 Jun 1997 19:35:34 -0500 (EST)
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IJUAVU5MPS001IV7@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov; Sun,
08 Jun 1997 19:35:29 -0500 (EST)
Received: from mothra.rs.itd.umich.edu by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA19203; Sun, 08 Jun 1997 19:35:26 -0400

Received: from [198.108.57.33] by mothra.rs.itd.umich.edu (8.8.5/2.2)
id TAA18581; Sun, 08 Jun 1997 19:35:22 -0400 (EDT)
X-Sender: tombutts@t.imap.itd.umich.edu
================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: JGompert (JGompert@cns.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:24-JUN-1997 19:35:00.00

SUBJECT: Re: Taxability of Education Awards and Service Scholars

TO: Diana Fortuna (Diana Fortuna@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Oops, on the match. We've matched 1620, or somewhere in there. We have

negotiations ongoing with a major computer company that is interested

ina

nationwide match. Hope to report more on that soon.

By the way, Sallie Mae matched for all the DC schools.

I think Gary's memo, which I'll have faxed to you first thing in the

a.m.

should answer your other questions. JG

From: Diana_Fortuna[SMTP:Diana_Fortuna@oa.eop.gov]

Sent: Monday, June 23, 1997 5:24 PM

To: JGompert

Subject: Re: Taxability of Education Awards and Service Scholars

Message Creation Date was at 23-JUN-1997 17:24:00

let me just make sure I understand status of hs service scholars: You have

1,300-1,600 applications from schools that look legit, but you haven't

told

anyone they're awarded, including the students or the principals. If

that's

wrong, let me know right away.

Also, let me know if there's an easy way to answer Bruce's perennial

question

about how much of the match you've raised. I guess that's the supply

rather

than the demand question, although obviously they're related.

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
RFC-822-headers:
Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
 id <01IKGPNRXIV40055KO@PMDF.EOP.GOV> for "Diana Fortuna"@oa.eop.gov; Tue,
 24 Jun 1997 20:36:18 -0500 (EST)
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
 id <01IKGPNQWTHC004PW9@PMDF.EOP.GOV> for Diana_Fortuna@oa.eop.gov; Tue,
 24 Jun 1997 20:36:17 -0500 (EST)
Received: from cns.gov by gatekeeper.eop.gov; (5.65v3.2/1.1.8.2/17Oct95-0424PM)

 id AA04315; Tue, 24 Jun 1997 20:36:16 -0400
Received: from smtpgate2.cns.gov (smtpgate2.cns.gov [204.124.231.17])
 by mailrelay.cns.gov (8.6.9/8.6.9) with SMTP id TAA04012 for
 <Diana_Fortuna@oa.eop.gov>; Tue, 24 Jun 1997 19:20:38 -0500
Received: by smtpgate2.cns.gov with Microsoft Mail id
 <33B0679C@smtpgate2.cns.gov>; Tue, 24 Jun 1997 20:34:36 -0400 (EDT)
================== END ATTACHMENT 1 ==================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: daily (daily@chronicle.com@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 1-JUL-1997 07:00:00.00

SUBJECT: 7/1/97 Daily Report from ACADEME TODAY

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Academe Today's DAILY REPORT

for subscribers of The Chronicle of Higher Education

Good day!

Here are news bulletins from The Chronicle of Higher Education

for Tuesday, July 1.

* SAYING THAT BILLS passed by the House of Representatives and Senate provide "inadequate" tax breaks to help families pay for college, President Clinton on Monday modified his own proposals to make them more acceptable to Congressional leaders. Under his revised plan, the President would make the tax credit more generous than would the House or Senate bills, but he would eliminate the $10,000 tax deduction that he first proposed more than two years ago.

* A MAN ACCUSED of defrauding academics across the United States by posing as the sports sociologist Harry Edwards turned himself in to police in Gainesville, Fla., last week.

* TWO CLIMBERS WERE KILLED and 12 others injured Sunday, when members of a mountaineering class at the University of Alaska at Anchorage slid down a steep, snow-covered slope and dropped 1,000 feet onto a field of boulders outside the city.

--> FOR MORE ON THESE STORIES, go to The Chronicle's World-Wide Web site (http://chronicle.com).

MAGAZINES & JOURNALS

A glance at the June 25 issue of "Salon":
Should the academy have its own language?

Postmodernist writing has long endured gibes from critics who say it's unintelligible. In "Sentenced to Death," Christopher Hitchens, a columnist for several magazines, agrees -- and disagrees. His article, prompted by the third annual "Bad Writing Contest," which was held recently by the editors of the journal "Philosophy and Literature," takes the contest "winners" to task for their gibberish, but then defends some of them. Should the academy have a language of its own? he asks. His answer sheds no new light on the debate. "No and yes," Mr. Hitchens writes. "No, because certain kinds of intellectual pretension and insecurity can only cloak themselves in mumbo-jumbo. ... Yes, because the university must always be experimenting, and experimenting outside the customary 'parameters,' which include language." (The magazine may be found on line at http://www.salonmagazine.com)

ALSO ON THE CHRONICLE'S WORLD-WIDE WEB SITE

OF NOTE ON THE NET: On-line publishers offer glimpses of good off-line summer reading.

INTERNET SITE OF THE DAY: Map exhibit offers bird's-eye views of 19th-century American towns.

NEW GRANT COMPETITIONS: Grants for research on preventing the spread of H.I.V., sexually transmitted diseases, and tuberculosis.

NEW ACTIONS IN WASHINGTON: Four new appeals to the Supreme Court, on an accusation of default on a student loan, on a university's responsibility for an accidental death, on an annual fee for student loans held by Sallie Mae, and on the implied right of action for retaliation under Title IX.

You may visit Academe Today as follows:

* via the World-Wide Web, at http://chronicle.com

* via telnet at chronicle.com

For information, send a message to help-today@chronicle.com

=================== ATTACHMENT 1
====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
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Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IKPWIDXM8W006OSC@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Tue,

01 Jul 1997 10:29:08 -0500 (EST)
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id <01IKPWIAP2N4005RCQ@PMDF.EOP.GOV> for Robert_M._Shireman@oa.eop.gov; Tue,
01 Jul 1997 10:29:04 -0500 (EST)
Received: from merit.chronicle.com by gatekeeper.eop.gov;
(5.65v3.2/1.1.8.2/17Oct95-0424PM) id AA13530; Tue, 01 Jul 1997 10:10:43 -0400

Received: from localhost (daemon@localhost)
by merit.chronicle.com (8.7.5/Chronicle) with SMTP id KAA11776; Tue,
01 Jul 1997 10:04:25 -0400 (EDT)
Received: by merit.chronicle.com (bulk_mailer v1.5); Tue,
01 Jul 1997 07:46:03 -0400
Received: (from che@localhost) by merit.chronicle.com (8.7.5/Chronicle)
id HAA09241 for daily; Tue, 01 Jul 1997 07:46:02 -0400 (EDT)
================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 2-SEP-1997 11:13:00.00

SUBJECT: more consolidation/reauth stuff

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
FYI - Are you on FINAID-L?

Date: Thu, 28 Aug 1997 10:02:04 -0400

From: Mark Kantrowitz <mkant@FINAID.ORG>

Subject: Re: Department of Education's Title IV Reauthorization Proposals

There are two consolidation loan programs, Direct and FFEL, that split the customer base. The Direct one provides a greater variety of repayment provisions at a lower interest rate than the FFEL. The Department's proposal is to establish some parity between the programs, by requiring some of the same repayment provisions on FFEL loans. Banks would not necessarily be inclined to do this voluntarily, as some of the repayment provisions are less profitable (income contingent repayment in particular). Barmak says that this isn't necessary, since Direct Consolidation already has those provisions. But not every student can take advantage of them or knows how to weasle their way into them. Or is Barmak advocating the elimination of FFEL Consolidation, in favor of what he calls a "mismanaged" program?

A more valid way to attack my position is on the parity issue. Instead of requiring FFEL loans to have the repayment provisions, the parity should be established between the two consolidation loan programs.

I do not believe that eliminating either program is in the best interests of the students. The competition of FFEL and Direct is very healthy for the industry. It shook up the bank industry, by forcing them to compete for the first time. Now it's time for the department to innovate, in a feedback loop. The Department has the fundamental advantage of economies of scale. The banks can compete on price and customer service. The tug of war between the two will lead to benefits on both sides.

I would like Barmak to cite a source or reference for his statement that "the Department has apparently decided to stop offering direct loan consolidation indefinitely". I checked Dear Colleague letters, the Federal Register, and even called a few sources in the Department and Congress, and this was news to them. There has been some discussion that the income contingent repayment provisions will cost the federal government much more than the original estimates, and that there will likely be some attempt to "fix" the provisions. But I haven't heard ANY rumors of an attempt to kill Direct Consolidation.

Mark

Mark Kantrowitz, Publisher FinAid Page, Inc.

The Financial Aid Information Page PO Box 81620, Pittsburgh, PA 15217

http://www.finaid.org 1-412-422-6189 (fax)

mailto:mkant@finaid.org 1-412-422-6190 (voice)

Date: Thu, 28 Aug 1997 10:42:49 -0400

From: Mark Kantrowitz <mkant@FINAID.ORG>

Subject: Comments on some recent email

I've received some private email with comments on my recent missives. I thought the responses would be of more widespread interest.

1. "I trust the Department, but don't trust the IRS. Marrying the two is a mistake."

Certain lines on the FAFSA are supposed to come directly from the 1040. As you may recall, the IG conducted a study within the past year where they found that 4% of the students were providing different information to the schools during verification than actually appears on the 1040 submitted to the IRS. This falsification of tax returns yielded $176 million in fraud. The goal of the data match is to compare the numbers reported on the FAFSA which should be identical with the actual numbers on the 1040. The IRS and the Department both jealously guard their data, so the match will likely involve sharing only of the data necessary to perform the match. The IRS won't be getting asset information.

2. "Tax returns don't contain enough information to evaluate family

ability to pay."

Not quite true. If you look at just AGI, it's true. But if you look at all the numbers, including the information provided on the schedules, you can form a quite detailed picture of the family's actual income and assets. You don't get a listing of the assets, but you do get the interest on bank accounts and dividends and capital gains on securities (a bit choppy though).

If the Department wanted to be *really* innovative, they could calculate an estimate of the net present value of the family's earnings. This would entail conducting Monte Carlo simulations not just of the discount rate but variability in CPI and income. But it could be done in such a way as to provide a single measure of family ability to pay and a mathematical 'confidence' in that measure. But this requires a rather sophisticated analysis for what is at its essence an approximation.

3. "PPY will double our PJ."

I've been digging through my files trying to find my copy of the only study of the impact of PPY on PJ. But I recently moved, and things are a bit disorganized. Nevertheless, I distinctly remember it reporting an estimated 2% increase in PJ. Now not all schools will experience this. Some will experience dramatic increases, and some will experience decreases. But most -- and that's the key, MOST -- will experience a modest increase. Incomes do change from year to year, but the students with the greatest fluctuations will already be in the PJ pool. Remember, we're talking about incremental changes here.

Of course, the natural extension of PPY is MPY -- using multiple years of prior year data. One could use a least squares method to project the "average" award year income, and even have a standard deviation figure one could use to predict the likelihood of needing PJ, to automatically select students for examination by a FAA.

Mark

Mark Kantrowitz, Publisher FinAid Page, Inc.
The Financial Aid Information Page PO Box 81620, Pittsburgh, PA 15217
http://www.finaid.org 1-412-422-6189 (fax)
mailto:mkant@finaid.org 1-412-422-6190 (voice)

Date: Thu, 28 Aug 1997 09:28:30 -0600

From: Cheryl Hesser <CHesser@VINES.COLOSTATE.EDU>

Subject: Salli Mae, Consolidated Loans and NSLDS

Jenni Morrison asked if any one was having problems with getting information on what loans were included in a consolidated loan. We have been using NSLDS since it has been operational and this has been one of the biggest problems we've had. Sallie Mae's response to us numerous times has been 'Put your request in writing and we'll send something in a few months'. No kidding! Since this was not reasonable we tried to the best of our ability to determine what loans (and what type, sub or unsub) make up a consolidated loan.

Some students still have the paper work that they used to request the consolidated loan, but did not have what the lender actually consolidated. If the all the lenders (and that's a real big IF) reported loans as PC (paid by consolidation) to NSLDS we wouldn't have to make all these searching calls so we could stay in compliance and allow the student their full eligibility under the law. In our experience (we've had over a hundred consolidated loans to review) we find very few loans as being reported PC.

Then let's talk about ED's 'guidance' as to how to figure what percentage of payments went to what type loans, ya right.

My hope for NSLDS is that ED can figure out what they are asking data providers to provide and give us for every borrower their aggregate amount borrowed. After all the school is expected to do this, should be a simple enough task.

I have expressed these views, identified problems, and offered suggestions to ED, but views expressed here are my own and do not necessarily reflect my institution's views.

Cheryl Hesser

Assistant Director for Educational Loans

Colorado State University

Phone 970-491-4960

FAX 970-491-5010

chesser@vines.colostate.edu

Date: Thu, 28 Aug 1997 15:55:41 -0400

From: "Nassirian, Barmak" <NassirianB@AASCU.NCHE.EDU>

Subject: Re: Department of Education's Title IV Reauthorization Proposals

Mark:

I candidly don't follow your argument on consolidation. I think I have already said as much as I can as to where I believe the logic of your initial objection to AASCU's position was faulty.

I do, however, want to respond to your request for additional information.

I thought I would share the following letter from Congressman Pete Hoekstra, Chairman of the Subcommittee on Oversight and Investigation, to Secretary Riley:

SUCOMMITTEE ON OVERSGHT AND INVESTIGATIONS

COMMITTEE ON EDUCATION AND THE WORKFORCE

U.S. HOUSE OF REPRESENTATIVES

2161 Rayburn House Office Building

WASHINGTON, D.C. 20515-6100

August 28, 1997

VIA FACSIMILE

The Honorable Richard Riley

Secretary of Education

U.S. Department of Education

600 Independence Ave., SW

Washington, DC 20202

Dear Secretary Riley:

The Committee on Education and the Workforce's Subcommittee on Oversight and Investigations (Subcommittee) is charged with ensuring the effective, efficient and economical operation of the Department of Education (Department). The Subcommittee is also responsible for ensuring that the activities of the Department are consistent with all applicable laws.

On June 12, 1997, this Subcommittee requested information about the loan consolidation process in the William D. Ford Direct Student Loan Program (FDSLP). Then on July 23, 1997, the Subcommittee requested further information about the loan consolidation process in the FDSLP. Copies of both letters are attached. As of this date, the Subcommittee has received incomplete responses from the Department. Significant concerns were raised in both out letters. These concerns are further exacerbated as a result of new information which has come to our attention.

Specifically, on Tuesday August 26, 1997, the Subcommittee was briefed by Elizabeth Hicks, Deputy Assistant Secretary for Student Financial Assistance Programs, and Jerry Russomano, Director of Program System Services of the Office of Postsecondary Education. Ms. Hicks and Mr. Russomano informed the Subcommittee that the Department will no longer be consolidating loans in the FDSLP for an "undetermined period of time." The reason given for the indefinite shutdown was the need for greater accountability for the payments which the Department is making on behalf of students. Further, the magnitude of the problem has been sufficient to merit the shutdown of operations until a large scale audit of consolidation payments within the FDSLP is completed and the proper underwriting functions are in place.

The problems the Department's decisions have created are detrimental to young men and women all across this country. Due to this shutdown, tens of thousands of students will be left in limbo. As of July 23, 1997, more than 70,000 applications were "in process" by EDS. Additionally, all new applicants will be sent letters from the Department explaining that the FDSLP will be accepting no new applications for consolidation for an undetermined period of time.

In a hearing before the Subcommittee on Postsecondary Education, Training, and Life Long Learning, Ms. Hicks identified the Department as the Microsoft and Citibank of higher education. Yet, the shutdown by the Department of consolidation operations, at Electronic Data Systems (EDS),
will be the second time in less than two months the loan consolidation process has become so dysfunctional that a shutdown is necessary. These two shutdowns illustrate one of the main concerns of this Subcommittee with the management of the FDSLP. The inherent complexity of large scale
computer and financial systems contracts are beyond the technical and financial expertise of those charged with operating these systems and managing these contracts within the Department.

In the next six weeks the Department may begin operating three new FDSLP contracts. These three new contracts could ultimately cost the taxpayers more than $1 billion. EDS alone has a contract with an expected value of more than $378 million. Between the loan origination contract currently causing so many problems and the loan servicing contract, EDS will receive more than $628 million. Before the three new servicing contracts become effective the Department needs to ensure that EDS and the other contractors are capable of meeting their contractual responsibilities.

In the July 24, 1997, response by the Department to the Subcommittee's concerns, the Department stated, "EDS met the milestones and test criteria," and was therefore granted approval to start consolidating student loans. An explanation of how EDS met the test criteria with these fundamental flaws is necessary. Further, the Department stated, "we do not pay for services that are unacceptable." Since the consolidation services are clearly "unacceptable" the Subcommittee would like to know what remedies the Department is seeking.

Pursuant to the Subcommittee's authority and responsibility under Rules X and XI of the Rules of the House of Representatives, please provide the following information:

1. An immediate and thorough response to the Subcommittee's June 12, 1997, and July 23, 1997, requests;

2. How much money the Department has paid EDS to date for consolidation services;

3. What plans are in place to provide means for former students to consolidate loans;

4. An explanation as to how EDS passed systems

testing despite the existence of these ongoing problems; and,

5. What legal actions the Department is pursuing to reclaim money spent on unacceptable performance.

Your cooperation in providing the Subcommittee with two copies of your written response no later than the close of business, September 11, 1997, will be appreciated. We trust you will agree that the issues raised here need immediate attention if this program is to be operated effectively and
efficiently. If there are any questions please contact Mark Brenner at 202-225-7101.

Sincerely,

s/PETE HOEKSTRA

Chairman

Subcommittee on Oversight and Investigations

cc: The Honorable Jim Jeffords

The Honorable William Goodling

The Honorable Howard "Buck" McKeon

The Honorable William Clay

The Honorable Dale Kildee

Mr. Thomas Bloom, Office of Inspector General

U.S. Department of Education

Hope this helps.

Barmak Nassirian

AASCU

Date: Thu, 28 Aug 1997 16:48:27 -0400

From: CSB <CSB@ED.GOV>

Subject: Federal Direct Consolidation Loan Applications

Dear Colleagues:

The following message from Deputy Assistant Secretary Betsy Hicks was posted to the SFA BBS this afternoon. It is being cross posted to FINAID-L, FINNET-L and MEDAID-L for your information.

SFA Customer Support Branch

U.S. Department of Education

****

Posted August 28, 1997

Dear Colleague:

The purpose of this message is to correct any misinformation you may have heard concerning recent actions taken by the Department of Education. As of August 26, 1997, we temporarily ceased accepting Federal Direct Consolidation Loan applications. We are taking this action so that we can focus our efforts on processing current applications. To be fair to new customers, we will not accept new applications until we are able to process them in a reasonable amount of time. Our top priority is to process current applications as soon as possible; we will let you know when we resume accepting applications.

In the meantime, we continue to process loan applications in progress. We have delayed the last phase of consolidation for a short period of time while we take some immediate actions to correct deficiencies. But we continue to process and move applications forward to this point.

We are advising borrowers as follows:

If you would like to consolidate your debt and you have only FFEL loans, you can consolidate them along with any Perkins loans and any eligible Health Profession Loans under the FFEL program. You should contact one of the holders of your FFEL loans for information about

FFEL loan consolidation.

If you consolidate into FFEL, you may still be eligible to consolidate that new loan into the Direct Loan Program later to take advantage of different repayment options.

The law does not allow Direct Loans to be consolidated into FFEL loans. However, at this time, you may choose to consolidate your other loans into a FFEL consolidation loan and reconsolidate into the Direct Loan Program later.

I deeply regret the inconvenience, but believe that this is ultimately the best way to ensure quality service to our customers in the consolidation of their loans into Direct student loans. I will keep you updated as to our progress.

Sincerely,

Elizabeth M. Hicks

Deputy Assistant Secretary

Student Financial Assistance Programs

Date: Tue, 26 Aug 1997 16:38:49 -0400

From: "Nassirian, Barmak" <NassirianB@AASCU.NCHE.EDU>

Subject: Re: Department of Education's Title IV Reauthorization Proposals

I appreciate Mark's view that "the Department's proposals seem like a reasonable collection of improvements to the Higher Education Act." That is exactly right. The problem, of course, is that SEEMING reasonable, and BEING reasonable are two different qualities. A number of ED's proposals may seem reasonable, especially if the Department's descriptions of what they would accomplish are taken at face value. A more detached examination of such provisions, however, may lead some to agree that things aren't always what they seem to be.

I would like to respond to several of Mark's points:

1- Mark explains that the ED package "Makes the same repayment plan provisions available in both Direct and FFEL loans." He then adds "(I strongly disagree with AASCU's comment on this proposal. They say that direct consolidation is enough. I don't feel that this is sufficient, since consolidation, with the rounding up of the interest rate, is not in the student's best interest.) There are other proposals to establish parity between other aspects of the two loan programs from a student perspective."

Direct consolidation loans DO NOT round up the weighted average of the underlying loans, which is the way FFEL consolidation rates are calculated:

The interest rate on a Direct Subsidized Consolidation Loan or a

Direct Unsubsidized Consolidation Loan is the rate established for Direct Subsidized Loans and Direct Unsubsidized Loans under Sec. 685.202(a)(1). The interest rate on a Direct PLUS Consolidation Loan is the rate established for Direct PLUS Loans under Sec. 285.202(a)(2). [34 CFR 685.215 (g)]

Forcing lenders to offer certain options to borrowers, therefore, cannot be justified by appealing to students' best interest. If students really need a particular option, it is available to them--at no additional cost--in the direct loan consolidation program. Indeed, the fact that borrowers have that choice will force most lenders to offer these options. The difference is that market forces, rather than heavy-handed legislative mandates, effectuate the desired outcome.

2- On elimination of assets, which the Department proposes imputing instead (from 2 year old data, no less), I guess Mark's disagreement with us is more philosophical. He explains: "I STRONGLY SUPPORT this proposal, since it encourages families to save for their education."

The question, I believe, the answer to which largely governs each side's view is "What is the goal or fundamental aim of need analysis?" Mark and the Department apparently believe that increasing the national savings rate is a proper goal of need analysis, and, incredibly, that parental savings behavior over the many years prior to filling out a FAFSA is significantly a function of how net assets are treated under FM. AASCU, on the other hand, believes that the proper goal of need analysis is assist needy applicants afford college. We do not believe that people plan to be poor just to game the system of federal aid, nor do we think it does any good to lecture applicants at the time they apply as to what their behavior over the prior two decades ought to have been. The imputation of assets--especially on the empirically shaky excuse that it will change parents' savings behavior--is a form of punishing the child for the "sins" of the parent. It is the irrational assertion of an "ought" (you ought to have this much in assets) in the face of an overwhelming "is" (but that is not the correct figure as to what I own).

I agree with Mark that the current treatment of assets in FM is convoluted, but the solution is not astrology tablets drawn up by ED.

3- On Prior Prior Year, Mark is "strongly in favor, because it would permit a data match with the IRS, thereby eliminating much of verification (yes!), with only a minor increase in PJ (except at a handful of schools with unusual student populations)." We support the goal of administrative simplification, but believe there are substantially better ways than the proposed use of two-year old data. We believe that base year data should be collected on the FAFSA, and verification should be conducted through a data match with IRS. This would immediately improve data quality and eliminate any temptation to underreport income, since it would be made clear that the data match would allow for 100% verification.

I should also point out that a few case examples we have looked at indicate that PJ increases in a PPY environment would be anything but minor (in excess of 40 percent of applicants having major income fluctuations over a two year cycle).

I will stop at the top three.

Barmak Nassirian

AASCU

Date: Sun, 24 Aug 1997 01:28:14 -0400

From: Mark Kantrowitz <mkant@FINAID.ORG>

Subject: Re: Department of Education's Title IV Reauthorization Proposals

I thought I'd follow up on Barmak's somewhat negative characterization of the Department of Education's reauthorization proposals with my more optimistic interpretation of the outline.

In case it isn't clear, this message represents my personal opinion only.

Overall, the Department's proposals seem like a reasonable collection of improvements to the Higher Education Act. Nobody is going to get everything they wanted (e.g., I would have liked to see the elimination of loan fees and the establishment of special treatment for parents enrolled in college), but I think most people will be happy with most of the proposals. To summarize, I think students will benefit considerably from the Department's proposed changes.

Some things not mentioned in the department's summary, for which I'd like to hear answers:

+ How do the department's proposals concerning EFC affect the treatment of prepaid tuition plans? Are they still considered a resource, or are they now considered an asset and hence ignored due to the imputing of assets?

+ Does the department's proposals allow the cost of a computer to be included as a cost of attendance component or not?

Some of the noteworthy elements of the Department's proposal include:

+ Higher Pell amounts to second year students with Zero EFC.
+ Reinstates time limits on Pell to 150% of the normal term (e.g., six years for an undergraduate degree) with exemptions for disabled students. There's proration to take part-time students into account.
+ Makes the same repayment plan provisions available in both Direct and FFEL loans. (I strongly disagree with AASCU's comment on this proposal. They say that direct consolidation is enough. I don't feel that this is sufficient, since consolidation, with the rounding up of the interest rate, is not in the student's best interest.) There are other proposals to establish parity between other aspects of the two loan programs from a student perspective.
+ Lets schools certify Stafford loans for grad/prof at amounts greater than $18,500 if they pay a 10% insurance premium on the

amount above \$18,500. (I can appreciate AASCU's concern that this sets a dangerous precedent, but I feel that this is a reasonable approach to meeting the needs of graduate and professional students with programs that cost substantially more than \$18,500 a year.)

+ Bans insurance companies from acting as lenders of FFELP loans.
+ Allows schools to set limits on borrowing by certain categories of students (e.g., freshmen or students in particular programs) so long as the limits don't discriminate on the basis of the usual eight no-nos.
+ Several provisions to give the department flexibility to adapt to technological changes, including the authority to accept faxed signatures and imaged documents as though they were original.
+ Simplifying proration.
+ Allows the schools to use PJ to change independent students to dependent students, just as schools can currently do the opposite.
+ Allows use of PJ to directly affect the EFC, instead of just the input data elements.
+ Fixes some flaws in the treatment of independent students.
+ Increases the dependent student income protection allowance from \$1,750 to \$3,500 to encourage students to earn money.
+ Eliminates assets from the FAFSA, instead imputing it from family income, parents age, and number of family members. I STRONGLY SUPPORT this proposal, since it encourages families to save for their education. (Except for student assets, the

current methodology depends minimally on assets. In the case of student assets, it unfairly affects parents who conscientiously save for their children's education, but make the mistake of saving in their child's name for the tax advantages.) I applaud the department for including this proposal.

+ Prior Prior Year. Some people strongly oppose this, but many are strongly in favor. I'm strongly in favor, because it would permit a data match with the IRS, thereby eliminating much of verification (yes!), with only a minor increase in PJ (except at a handful of schools with unusual student populations).
+ Proposals necessary to allow a data match with the IRS. I strongly support this, as it is a relatively simple way to eliminate a large amount of fraud.
+ Simplifies the criteria used to determine automatic zero EFC.
+ Eliminate the simplified needs test to disregard assets. I strongly support this proposal, as many students are confused by it, and it would no longer be necessary with assets imputed.
+ Simplify refund requirements!

Mark Kantrowitz

Publisher, FinAid Page, Inc.

Mark Kantrowitz, Publisher FinAid Page, Inc.

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http://www.finaid.org 1-412-422-6189 (fax)

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==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
RFC-822-headers:
Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IN5YAG80OW00CYQY@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Tue,

02 Sep 1997 11:09:43 -0400 (EDT)
Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IN5YAAVCXS005SGQ@PMDF.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Tue, 02 Sep 1997 11:09:38 -0400 (EDT)
Received: from mothra.rs.itd.umich.edu ([141.211.83.20])
by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01IN5Y9TDS1K003NP2@STORM.EOP.GOV> for
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id LAA25158; Tue, 02 Sep 1997 11:09:24 -0400 (EDT)
X-Sender: tombutts@t.imap.itd.umich.edu
================== END ATTACHMENT 1 ==================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Pauline_Abernathy (Pauline_Abernathy@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:17-SEP-1997 22:02:00.00

SUBJECT: Final ED testimony on loan consolidation

TO: Barry White (Barry White@EOP [UNKNOWN])
READ:UNKNOWN

TO: G. E. DeSeve (G. E. DeSeve@EOP [UNKNOWN])
READ:UNKNOWN

TO: Kathryn B. Stack (Kathryn B. Stack@EOP [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TO: Wayne Upshaw (Wayne Upshaw@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:

Below is the final testimony. Thank you all for your help with it. Because many of you cannot read items sent as attachments, I am putting it in the text of the email. However, because of its length the system forces me to send it in two pieces. Pauline

Statement by

Marshall S. Smith

Acting Deputy Secretary

U.S. Department of Education

before the Subcommittee on Postsecondary Education, Training, and Life-Long Learning

U.S. House of Representatives Committee on Education and the Workforce on

The William D. Ford Direct Loan Consolidation Program

September 18, 1997

Mr. Chairman and Distinguished Members of the Committee:

Thank you for inviting me to be here today. I am pleased to have the opportunity to clarify for the committee the problems we and our contractor, Electronic Data Systems (EDS), have experienced in administrating the loan consolidation process of the William D. Ford Direct Loan Program and the steps taken to address those problems.

I will not attempt to minimize these problems today. The stories we heard in testimony this morning are the types of experiences that have led the Department to its recent actions. On behalf of the Secretary, I would like to apologize to David Whelan, Angela Jamison, and others like them for the unacceptable quality of service they received. We are very aware of these problems and deeply committed to solving them.

That is why, on August 26, 1997, we told EDS to temporarily delay the last phase of the consolidation process while it took immediate action to correct deficiencies in its current process. With new controls in place and the approval of Price Waterhouse, the independent quality control unit on this project, EDS began last week to phase-in production of loan funding and booking, the final stage of loan consolidation. We also told EDS to temporarily stop accepting new loan applications effective August 27, 1997 so it can eliminate the backlog of applications that have accumulated since it took over this contract last fall.

Consolidation is the process of combining several loans into a single loan. Most borrowers consolidate their loans after they complete their education. The origination of a new single loan is not affected by the problems of consolidation. The direct loan program continues to run smoothly for today's students.

We deeply regret the inconvenience the temporary delay has caused to borrowers from these actions, but believe that this is ultimately the best way to ensure quality service to all borrowers wishing to consolidate their loans into direct student loans.

Addressing Borrowers' Concerns

Borrowers are our top priority: we are committed to ensuring that no additional borrowers are harmed. To this end, we are working with EDS to take several important steps:

First, EDS will contact all borrowers who have already consolidated their loans into the direct loan program to confirm their satisfaction with their consolidation loan and to address any outstanding problems they may have.

Second, for the borrowers whose applications are currently in the system, we have made forbearance available upon request. While in forbearance, a borrower may choose not to make payments or to make partial payments without penalty, although interest continues to accrue if it is not paid. In addition, they may be eligible for deferment.

Third, there are some borrowers in the system for whom EDS is currently awaiting information in order to complete the consolidation process. EDS is contacting all of these borrowers again in order to facilitate the processing of their applications.

Fourth, EDS will establish a special hotline to counsel any borrower who anticipates that he or she may default on his or her current obligations while awaiting the completion of the consolidation request.

Fifth, EDS is working collaboratively with lenders to verify information about the precise amount that each borrower owes on his or her loans.

Sixth, EDS is contacting each of the borrowers who has expressed interest or applied for a direct loan consolidation after August 26, 1997, but whose application EDS has not accepted due to the temporary suspension. EDS is counseling them about their alternatives to direct loan consolidation right now. One possibility for these borrowers is to continue making payments on their loans until direct loan consolidation becomes available. Borrowers also have the option to request deferment or forbearance. A third option for borrowers would be to consolidate their FFEL loans with a FFEL lender.

Let me now turn to how we are addressing the problems of consolidating loans at EDS.

EDS is implementing a plan it developed with the Department and Price Waterhouse to complete the consolidation process for the applications it received prior to August 27. The plan includes EDS accepting new applications no later than December 1, and sooner if Price Waterhouse certifies that EDS has met certain performance criteria.

Today, I will describe the actions the Department has taken to address the problems with the loan consolidation system. I will also discuss steps the Department is taking to improve and modernize its student aid programs. First, however, I would like to put these problems in perspective.

The Department's Student Aid Responsibilities

Each year, the Department promptly and efficiently delivers financial aid to millions of America's students. Despite the challenges facing the direct loan consolidation program, the student aid system as a whole is stronger than it has been in years. For example:

In fiscal 1997, through our contractors, we supported the delivery of more than $36 billion in grants, loans, and work-study funds to 7 million of America's students, including $6 billion in Pell Grants, $3 billion in Campus-Based aid, $9.5 billion in direct loans, $17 billion in Federal Family Education Loans (FFEL). An additional $5 billion in consolidated loans was provided to 500,000 borrowers.

With a strong charge from Congress in 1992, our initiative to improve the FFEL program has helped cut the cohort default rate in half, from 22.4 percent in 1990 to 10.7 percent in 1994, the last year for which figures are available. Collections on defaulted FFELs have more than doubled, from $1 billion in fiscal year 1992 to $2.2 billion in fiscal 1996.

During fiscal 1997, the Department's private-sector contractor processed 9.5 million Free Applications for Federal Student Aid (FAFSAs) and we are now sending out next year's FAFSAs earlier than ever before.

The Department has also launched FAFSA on the Web, a free, secure Web site that allows students to submit their FAFSA over the Internet.

FAFSA on the Web gathers more accurate data because of automatic prompts to resolve inconsistent or conflicting entries. It has been awarded the prestigious national "Lycos Top 5 Percent of the Web" award.

The National Student Loan Data System (NSLDS) now contains information on 34 million past and present financial aid recipients and is routinely used in pre-screening applicants for federal aid. From January 1995 through the first half of 1996, NSLDS identified more than 125,000 applicants as prior defaulters, helping to prevent as much as $385 million in loans and Pell grants to ineligible students.

916 schools have been removed from student aid programs over the past four years, including 693 schools from all student aid programs and an additional 223 from federal loan programs, for reasons that include high default rates, a strong recertification requirement, and

withdrawals.

The Department cleared the backlog of 2,263 appeals from over 600 schools in the last 18 months that had been determined to be ineligible for student loan programs. Because institutions remain eligible while on appeal, the backlog of unresolved appeals had substantially hindered the Department's enforcement efforts.

Since its inception in 1994, the direct loan program has provided a simpler, more automated, and more accountable system for borrowers and participating institutions. In just three years, students and schools have witnessed the development of an improved level of customer service in financial aid delivery.

The success of the Department's efforts is reflected by the rapid growth of the program. The number of schools actively participating in the program has increased from 104 in the first year to roughly 1300 today, and their volume represents approximately one-third of the $30 billion market in new student loans. To give you a point of comparison: nearly nine years after the break-up of AT&T, it had not yet lost one-third of the market share it had as a monopoly.

The growth is particularly impressive in light of the fact that the future of the program has been debated continuously, dissuading some schools from joining the program. The program has distributed $9.5 billion in new student loans this year because of the excellent service it provides to students and schools.

Furthermore, competition from the direct loan program has forced FFEL lenders and servicers to improve their customer service as well. As the Advisory Committee on Student Financial Assistance wrote in its August 1996 report, "Competition from the federal direct lending program since its inception three years ago has improved the FFEL program significantly."

Direct Loan Consolidation

Nonetheless, it is true that the loan consolidation program is facing serious challenges. Of the 142,856 borrowers who have applied to have their loans consolidated through the direct loan program, EDS has consolidated the loans of 53,711 of them. The applications of 84,078 borrowers are still pending and 5,067 borrowers withdrew their application or failed to submit a promissory note after repeated reminders.

,

Table 1. Status of Consolidation Applications Received by EDS

Applications Received	142,856

Applications in Process 84,078

Applications Withdrawn 5,067

Completed Consolidations 53,711

As background, our first direct loan contractor, Computer Data Systems Inc. (CDSI), initiated its loan consolidation process in March 1995. The CDSI process was personal computer-based and relied heavily on manual procedures. When the contract came up for renewal, EDS, a leading private-sector firm with an international reputation for managing large computer systems, was awarded the competitive contract based upon its proposal for a technologically sophisticated, client-based process that would provide lower cost and a greater capacity for increased volume.

EDS was required to pass a rigorous systems testing process developed by the Department and approved by Price Waterhouse. After all required phases of testing were successfully completed with approval from Price Waterhouse, the Department allowed EDS to assume direct loan consolidation operations on September 16, 1996.

Despite extensive testing and review, EDS experienced systems problems in part because of some processes incorporated into the system to reduce the need for manual intervention that created some new, undetected problem areas.

Consolidating student loans is like consolidating several mortgages on a home, hundreds of times a day. Every consolidation may involve multiple parties, including the consolidator, the borrower, credit bureaus, guaranty agencies, and an average of three lenders. Erroneous, incomplete or late information from any of these parties delays the consolidation. And because loan balances are constantly changing due to the accrual of interest and borrower payments, a lag in the reporting of two pieces of information can become a real obstacle to timely and accurate loan consolidation.

Compounding these obstacles was the sheer volume of loan consolidation applications EDS received. Based upon our experience in the first two years of the program and comparisons with Sallie Mae, the largest private loan consolidator, we anticipated roughly seven thousand consolidation applications per month. In fact, since September 1996, EDS has received roughly twelve thousand applications per month. This volume made it very difficult to trouble-shoot and fine-tune the system while also processing consolidations.

On August 26, 1997, EDS temporarily delayed the final, funding and booking phase of the consolidation process while it took immediate action to correct deficiencies in its processes. EDS also temporarily stopped accepting new loan consolidation applications so it could eliminate the backlog of applications that accumulated since it began consolidating loans last fall. EDS continues to process the applications it has already received and has already resumed the last phase of the consolidation process for some loans.

Most borrowers with only direct loans are not affected by the temporary suspension because their loans are already included in a single payment, and thus may be seen as self-consolidating. Likewise, borrowers with only FFEL loans could consolidate with a private lender, although the terms of consolidation may not be as beneficial. Borrowers who temporarily cannot apply to consolidate all their loans include those who have both direct and FFEL loans and FFEL borrowers who are unable to secure a satisfactory repayment plan from a FFEL lender.

The Department has faced this problem head-on. As I have previously emphasized, we are deploying every available resource to mitigate the effect on borrowers of the loan consolidation delays. We are also taking decisive action to remedy the problems at EDS.

We increased our staff working on-site with EDS in Montgomery, Alabama. The team included senior Department and Price Waterhouse staff and expert consultants with extensive banking experience that have been added to the EDS staff. Together, we are developing and implementing three plans: (1) to improve the direct loan consolidation process immediately and complete the pending applications; (2) to remedy errors made in previous consolidations, and (3) to re-engineer the process to increase capacity and improve timeliness and accuracy over the long-term.

First, working with the Department, EDS developed and implemented a plan, reviewed by Price Waterhouse, to establish new procedures to improve the timeliness and accuracy of the loan consolidation process immediately and complete the pending applications. EDS began implementing this plan on September 12. New procedures include:

Re-aligning staff responsibilities to address process bottlenecks;

Increasing the use of the National Student Loan Data System to verify student information;

Establishing hotlines between EDS and lenders to verify loan information;

Devoting additional staff to obtaining up-to-date information to ensure accurate consolidations;

Improving the process for verifying eligibility for income-contingent repayment with the Internal Revenue Service;

Upgrading the document imaging system to reduce errors; and

Establishing standard reporting procedures for lenders to reduce burdensome data entry.

EDS is now using these new procedures to consolidate applications currently in the system. In addition, EDS will be required to commit additional resources to the project if Price Waterhouse and the Department determine on October 6 that it has not met its weekly production targets.

EDS is also preparing for an anticipated surge of loan consolidation applications after EDS begins processing new applications. EDS has assured us that the new procedures will allow them to handle those loans in a timely and accurate manner. In order to resume accepting new applications, EDS will have to meet six key performance indicators:

No more than a two-week inventory of certifications (15,000 certifications or fewer);

100 percent accuracy rate on data entry on promissory notes and certifications;

Increased accuracy rate, acceptable to the Department and Price Waterhouse, on a statistical sample on promissory note writing;

All problems with transactions submitted to servicing are resolved within 72 hours;

EDS performs to the Department and Price Waterhouse-approved plan for resolving prior errors; and

Demonstration to the satisfaction of the Department and Price Waterhouse that its system can track status of all applications, including exceptions.

Second, by the end of the month EDS will finish a separate plan to correct inaccurately consolidated loans. EDS will undergo 100 percent validation for all loans. The plan will be reviewed by the Department and Price Waterhouse before it is implemented. It is of the utmost importance to us to rectify these errors and ensure future accuracy.

Finally, both EDS and Price Waterhouse have submitted long-term plans to fully re-engineer the loan consolidation process. These proposals are expected to lead to substantial improvements in the loan

consolidat==================== ATTACHMENT 1 ====================
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 17 Sep 1997 22:12:20 -0400
================== END ATTACHMENT 1 ==================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Nancy.Coolidge (Nancy.Coolidge@ucop.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:18-SEP-1997 23:11:00.00

SUBJECT: Re: 1998 student loan interest rates and Pell independent stude

TO: Daniel I. Werfel (Daniel I. Werfel@eop [UNKNOWN])
READ:UNKNOWN

TO: Daniel J. Chenok (Daniel J. Chenok@EOP [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TO: S. A. Noe (S. A. Noe@eop [UNKNOWN])
READ:UNKNOWN

TEXT:
Dear John:

I very much appreciate your explanation and the faxed material -- I am quite impressed that you took the time to provide so much commentary in the note below! I also appreciate the frustrations associated with an e-mail debate, and so will not use this opportunity for that purpose with my e-mail clipping service readership, although I'm happy to share your message with them, if you feel you'd prefer it be out there to counter the PIRG piece and if you believe that it would not provoke unwanted e-mail responses -- always an issue. So, unless you say so, I won't share your note with that large and varied population. As I'm sure you are well aware, some of the financial aid community is already trading information and opinions on this topic, so a version of such a debate is taking place, irrespective of our exchange. Obviously, few of us are well informed, or comfortable with this issue.

I think that I understand your point that the CBO cost analyses are highly volatile and that the assumptions PIRG used in its analysis may exaggerate the most likely outcomes. I believe that I could be persuaded that subtle or complex issues are being glossed over and that important, but difficult-to-portray-as-simple points are being obscured by snappy rhetoric (how often I have believed myself to be in that very position -- in fact, I would suggest that the student and higher education community are frequently so entrapped!)

Still, John, I cannot feel I'm doing justice to the integrity of this larger issue if I shy away from sharing with you the underlying problem that I believe the private capital providers are struggling with this time: a subtantial portion of the higher education community just doesn't trust you any more.

The parable that is being whispered about in my circles is that of the "Boy Who Cried Wolf."

This time you may, in fact, be facing a real and substantial impediment to participation in the guaranteed student loan programs. The bankers and economists who decide whether their financial institutions can make enough profit with the July 1, 1998 interest rate benchmarks will not be the friendly folks who market us and who negotiate alongside the school community for more reasonable administrative rules for these valuable programs.

But you've threatened us with this prospect before. In most cases, the power of this threatened withdrawal has been sufficient to leverage what you wanted; the community's bowing and scaping to defend and accommodate you has lingered in memory. In only one case has the community really taken on chance on confronting you -- when a small group walked off into an uncertain future with Direct Lending. You predicted cataclysm and you fought a pitched battle, the scars of which are palpable for many. And, when some of the dust settled (I'll agree, this sort of thing is an evolving story...), we realized that most of the important capital providers were still players, that service to institutions and students was improving, that some reliable populations of students were getting credit at more reasonable rates, that the speed of automation increased exponentially, and that guarantee agencies didn't provide the same value-added to the mix that they had when they were "invented" before technology reduced the need for a more local "federal face." We all grew up.

If the private student loan capital starts drying up, some schools may be forced to participate in direct lending, even if that's not their first choice. If we in the higher education community ever want to see in sharp relief the students (and their institutions) that the actuarial world views as "high risk" and for whom University of California (for example) students are paying insurance premiums, this is the moment. Forcing such risky students and schools to apply to participate in direct lending or to participate in the "lender of last resort" maize, could be a very good thing for consumer protection. Some students should not be borrowing and some "educational" or "vocational" offerings are not worth borrowing for! Pressure on the availability of less-enhanced capital could provide the sort of market-driven, hardnosed reality check that the Department of Education's institutional oversight efforts have struggled to impose all these years.

But if there was ever a time in history when it was in higher education's interests to force the cost of credit down by taking a chance on student loan capital becoming scarce, now is that time. If we ever want to determine where the real edges of profitability are, we cannot duck this opportunity.

I think that is why your carefully-hewn and possibly quite legitimate arguments are not being taken seriously, even by all those who are analytical enough to comprehend them.

This response does not address your points, John, because we can't get past the trust issue. Your arguments are admittedly "Daedalian -- but," as the quotation goes, "unpersuasive."

I'm a great admirer of yours, so I hope we're still speaking! Your friend, Nancy

At 10:13 AM 9/18/97 -0400, you wrote:

>Nancy: I will be forwarding you by regular fax the ED Budget Office

>prepared analysis of the projected increased cost to student loan

borrowers

>of repealing the ten year bond based borrower interest rates on FFEL and

>FDSL loans scheduled to go into effect on July 1, 1998. The numbers are
>dramatic and surprised many in D.C. because they were almost twice
previous
>estimates. We are trying to ED to explain to us how they reached the
numbers.
>
>There is no question that under the economic assumptions currently being
>used by both the Congressional Budget Office(CBO) and OMB that borrowers
are
>likely to pay more interest on their student loans than under the 91 day
>to-bill rates currently used in the interest rate formula in both
programs.
>
>As is well known throughout the community, the banking industry has been
>working hard to persuade Congress that the 1998 interest rates should be
>repealed. Here's our thinking:
>
>1) The ten year bond based rates were not enacted (in 1993 as part of
the
>Direct Loan legislation) to reduce borrower interest costs, but to "match
>fund" Direct loan funding with the borrower's interest rate. The thinking
>was that the OMB presumed cost of funds in FDSL was ten year treasury debt
>and the 1 percent is a presumed cost of servicing. When a compromise was
>hammered out to provide for continuation of both programs, nobody
considered
>whether a ten year bond based interest rate worked in the FFEL program.
>

>2) Importantly, the history of the ten year bond suggests that had the
ten
>year bond plus one interest rate been in effect for past ten years,
>borrowers would have paid more in six of those years. Three of those
years
>are '92, '93, and '94. On the basis of this history, we have been
>comfortable in saying that lower borrower interest costs are in no way
>certain under the ten year bond based rate. We also point out that the
CBO
>projections are "straightlined" after the year 2000--CBO is not attempting
>to say what rates will be that far into the future.
>
>Since CBO was created, it has ALWAYS changed its economic assumptions
every
>six months. Six months from now CBO may tell us that borrowers may pay
even
>less under the ten year treasury bond, but they may also tell us that the
>borrowers will pay more. Given the very low treasury debt assumptions
>currently in place and the fact that in low inflationary times the
>difference in rates between the 91-day treasury bill and the 10 year
>treasury bill narrows, any increase in inflation will likely mean lower
>projected savings or even additional costs.
>
>3) Knowing that nobody in Congress wants to increase the cost of student
>loans for borrowers, FFEL interests suggested that all savings from
>repealing the ten year bond based rates should go to reducing the cost of
>loans to students. The budget savings of over $1 billion made possible a

>one percent reduction in the borrower origination fee. We called this "a
>bird in the hand" and suggested it was better than "two birds in the
bush,"
>hanging our hat on the speculative nature of the lower costs to students
>under the ten year rates. (Please note that the $1 billion in "savings"
>comes from the presumed higher interest costs paid by borrowers in the
FDSL
>program---Some have questioned whether it is "fair" to have additional
>interest costs paid by borrowers in FDSL go to reduce the borrower paid
>origination fee in FFEL (as well as FDSL). We were not troubled by this,
>thinking that this issue should not be about the "competition" between the
>two programs and that any reduction in origination fees to any borrowers
was
>a good thing).
>
>4) FFEL interests have been called "stupid" by some for pursuing the
repeal
>or modification of the 1998 interest rates, given the keen interest in the
>issue on the part of students. The fact of the matter is that if the new
>rates go into effect, and if the CBO is right, even in the short term,
FFEL
>lenders would not be able to make loans. Please understand that nobody is
>saying they will quit promptly at 12:01 on July 1, 1998, but rather that
>over the next 12 to 18 months there would be virtually complete
abandonment
>of the program.
>

>The problems are two fold: There is "interest rate risk" inherent in
>funding loans tied to the ten year treasury bond with short term
financing.
>(Please note that lenders understand that the borrower's interest rate
would
>be reset annually based on prevailing ten year bond rates) Lenders,
>consulting with firms like Smith Barney, Paine Webber, Goldman Sachs, and
>Sallie Mae have indicated that they can "hedge" against this interest rate
>risk, but doing so could cost as much as 1.2 percent. (The hedge is
>relatively simple: By contract an outside party agrees to guarantee the
>lender a return on the student loans corresponding to the lenders cost of
>funds--If the borrower paid interest rate is much less than the amount
>corresponding to the lenders cost of funds, a payment is made to the
>borrower. If the borrower's rate proves higher, no payment is made. Thus
>the "hedge" is in essence an insurance policy). Bob Shireman, now of the
>White House National Economic Council has said that our estimated cost of
>between .8 and 1.2 percent is too high. He has not offered any evidence
to
>substantiate his claim, saying that "economists" told him the hedge cost
is
>lower than we claim.
>
>The second issue is yield. Even without the "hedge" cost added to the
mix,
>lender return on loans would drop by at least .6 percent. (As noted
above,
>in some years, lenders would actually get a higher return, but bankers

want

>predictablity. They are not willing to gamble making nothing on their

>student loans for several years in exchange for the possibility of making

a

>higher return in future years).

>

>Frankly, the reason why the FFEL interests haven't come to an agreement

with

>student and other groups (Mr. Barmak Nassirian of AASCU has been very

active

>on this issue) is because the yield is not there to modify the 91 day rate

>to equalize the POSSIBLE reductions to student loan borrowers. This

>situation, frankly, is what has stopped an agreement from taking place.

>

>Please note that the Gordon bill did include what used to be considered a

>large cut in FFEL lender yield and that FFEL interests do expect that some

>sort of a cut will occur in lender yield. It is impossible,

unfortunately,

>to cut much more.

>

>

>All of the above has led us to consider the 1998 interest rate issue as

one

>about whether FFEL will remain viable. We note, using EDs own numbers

that

>when the projected savings to students are translated into a change in the

>monthly payment amount, the added possible cost to students is much lower

>(we know that many in the community find ANY increase troubling). For
>example, ED suggests that on a subsidized Stafford of $3,431 to a student
>attending a 4 year school, the net cost of the FFEL industry proposal is
>only $71 dollars. When translated as a difference in the monthly loan
>repayment amount of a borrower on a ten year repayment schedule, the
>arithmetic shows an increase of 59 cents per month.
>
>We have seen the material being put out by the U.S. Public Interest
Research
>Group and find it troubling. US PIRG is suggesting Lenders will "Gain $7
>Billion Windfall" when actual lender return on student loans would decline
>from the rates they are currently receiving. US PIRG apparently also
>totally rejects any acknowledgement that the savings they portray as real
>are in fact only possible.
>
>The 1998 interest rate problem has real issues in it on which people can
>disagree, but it is not about some sort of a FFEL lender grab for cash.
>FFEL interests believe FFEL itself is in jeopardy and that students,
>schools, ED and the Department should be working together to figure out a
>way to address the problem. Nobody wants borrowers to pay more on their
>student loans, but if the 1993 legislation is viewed as a legislative
>mistake, the consequences of which were not apprecaited, then maybe
progress
>can be made on this issue.
>
>Nancy, I am not intersted in entering into some sort of an e-mail debate
on

>this issue with parties that I expect are not interested in the other side

>of this difficult, esoteric issue. I don't think that helps either side

on

>this issue. If the FFEL concerns are credible, we should be figuring out a

>fix.

>

>John Dean

>Special Council,

>Consumer Bankers Association

>deandbm@jdbm.com

>

>

>=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

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RFC-822-headers:
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 by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01INT0HEXZN4006IE9@PMDF.EOP.GOV>; Thu,

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 by ernie.ucop.edu (AIX4.2/UCB 8.7/8.7) with SMTP id UAA40096; Thu,
 18 Sep 1997 20:20:26 -0700 (PDT)
X-Sender: ncoolidg@popserv.ucop.edu
X-Mailer: Windows Eudora Pro Version 3.0 (32)
================== END ATTACHMENT 1 ==================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:18-SEP-1997 10:10:00.00

SUBJECT: ED Loan Consolidation Statement

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
This and the following message contain the Statement by the Education Department on loan consolidation. It is being presented this morning before the Subcommittee on Postsecondary Education.

Statement by

Marshall S. Smith

Acting Deputy Secretary

U.S. Department of Education

before the Subcommittee on Postsecondary Education, Training, and

Life-Long Learning

U.S. House of Representatives Committee on Education and the Workforce

on

The William D. Ford Direct Loan Consolidation Program

September 18, 1997

Mr. Chairman and Distinguished Members of the Committee:

Thank you for inviting me to be here today. I am pleased to have the opportunity to clarify for the committee the problems we and our contractor, Electronic Data Systems (EDS), have experienced in administrating the loan consolidation process of the William D. Ford Direct Loan Program and the steps taken to address those problems.

I will not attempt to minimize these problems today. The stories we heard in testimony this morning are the types of experiences that have led the Department to its recent actions. On behalf of the Secretary, I would like to apologize to David Whelan, Angela Jamison, and others like them for the unacceptable quality of service they received. We are very aware of these problems and deeply committed to solving them.

That is why, on August 26, 1997, we told EDS to temporarily delay the last phase of the consolidation process while it took immediate action to correct deficiencies in its current process. With new controls in place and the approval of Price Waterhouse, the independent quality control unit on this project, EDS began last week to phase-in production of loan funding and booking, the final stage of loan consolidation. We also told EDS to temporarily stop accepting new loan applications effective August 27, 1997 so it can eliminate the backlog of applications that have accumulated since it took over this contract last fall.

Consolidation is the process of combining several loans into a single loan. Most borrowers consolidate their loans after they complete their education. The origination of a new single loan is not affected by the problems of consolidation. The direct loan program continues to run smoothly for today's students.

We deeply regret the inconvenience the temporary delay has caused to borrowers from these actions, but believe that this is ultimately the best way to ensure quality service to all borrowers wishing to consolidate their loans into direct student loans.

Addressing Borrowers' Concerns

Borrowers are our top priority: we are committed to ensuring that no additional borrowers are harmed. To this end, we are working with EDS to take several important steps:

First, EDS will contact all borrowers who have already consolidated their loans into the direct loan program to confirm their satisfaction with their consolidation loan and to address any outstanding problems they may have.

Second, for the borrowers whose applications are currently in the system, we have made forbearance available upon request. While in forbearance, a borrower may choose not to make payments or to make partial payments without penalty, although interest continues to accrue if it is not paid. In addition, they may be eligible for deferment.

Third, there are some borrowers in the system for whom EDS is currently awaiting information in order to complete the consolidation process. EDS is contacting all of these borrowers again in order to facilitate the processing of their applications.

Fourth, EDS will establish a special hotline to counsel any borrower who anticipates that he or she may default on his or her current obligations while awaiting the completion of the consolidation request.

Fifth, EDS is working collaboratively with lenders to verify information about the precise amount that each borrower owes on his or her loans.

Sixth, EDS is contacting each of the borrowers who has expressed interest or applied for a direct loan consolidation after August 26, 1997, but whose application EDS has not accepted due to the temporary suspension. EDS is counseling them about their alternatives to direct loan consolidation right now. One possibility for these borrowers is to continue making payments on their loans until direct loan consolidation becomes available. Borrowers also have the option to request deferment or forbearance. A third option for borrowers would be to consolidate their FFEL loans with a FFEL lender.

Let me now turn to how we are addressing the problems of consolidating loans at EDS.

EDS is implementing a plan it developed with the Department and Price Waterhouse to complete the consolidation process for the applications it received prior to August 27. The plan includes EDS accepting new applications no later than December 1, and sooner if Price Waterhouse certifies that EDS has met certain performance criteria.

Today, I will describe the actions the Department has taken to address the problems with the loan consolidation system. I will also discuss steps the Department is taking to improve and modernize its student aid programs. First, however, I would like to put these problems in perspective.

The Department's Student Aid Responsibilities

Each year, the Department promptly and efficiently delivers financial aid to millions of America's students. Despite the challenges facing the direct loan consolidation program, the student aid system as a whole is stronger than it has been in years. For example:

In fiscal 1997, through our contractors, we supported the delivery of more than $36 billion in grants, loans, and work-study funds to 7 million of America's students, including $6 billion in Pell Grants, $3 billion in Campus-Based aid, $9.5 billion in direct loans, $17 billion in Federal Family Education Loans (FFEL). An additional $5 billion in consolidated loans was provided to 500,000 borrowers.

With a strong charge from Congress in 1992, our initiative to improve the FFEL program has helped cut the cohort default rate in half, from 22.4 percent in 1990 to 10.7 percent in 1994, the last year for which figures are available. Collections on defaulted FFELs have more than doubled, from $1 billion in fiscal year 1992 to $2.2 billion in fiscal 1996.

During fiscal 1997, the Department's private-sector contractor processed 9.5 million Free Applications for Federal Student Aid (FAFSAs) and we are now sending out next year's FAFSAs earlier than ever before.

The Department has also launched FAFSA on the Web, a free, secure Web site that allows students to submit their FAFSA over the Internet. FAFSA on the Web gathers more accurate data because of automatic prompts to resolve inconsistent or conflicting entries. It has been awarded the prestigious national "Lycos Top 5 Percent of the Web" award.

The National Student Loan Data System (NSLDS) now contains information on 34 million past and present financial aid recipients and is routinely used in pre-screening applicants for federal aid. From January 1995 through the first half of 1996, NSLDS identified more than 125,000 applicants as prior defaulters, helping to prevent as much as $385 million in loans and Pell grants to ineligible students.

916 schools have been removed from student aid programs over the past four years, including 693 schools from all student aid programs and an additional 223 from federal loan programs, for reasons that include high default rates, a strong recertification requirement, and withdrawals.

The Department cleared the backlog of 2,263 appeals from over 600 schools in the last 18 months that had been determined to be ineligible for student loan programs. Because institutions remain eligible while on appeal, the backlog of unresolved appeals had substantially hindered the Department's enforcement efforts.

Since its inception in 1994, the direct loan program has provided a simpler, more automated, and more accountable system for borrowers and participating institutions. In just three years, students and schools have witnessed the development of an improved level of customer service in financial aid delivery.

The success of the Department's efforts is reflected by the rapid growth of the program. The number of schools actively participating in the program has increased from 104 in the first year to roughly 1300 today, and their volume represents approximately one-third of the $30 billion market in new student loans. To give you a point of comparison: nearly nine years after the break-up of AT&T, it had not yet lost one-third of the market share it had as a monopoly.

The growth is particularly impressive in light of the fact that the future of the program has been debated continuously, dissuading some schools from joining the program. The program has distributed $9.5 billion in new student loans this year because of the excellent service it provides to students and schools.

Furthermore, competition from the direct loan program has forced FFEL lenders and servicers to improve their customer service as well. As the Advisory Committee on Student Financial Assistance wrote in its August 1996 report, "Competition from the federal direct lending program since its inception three years ago has improved the FFEL program significantly."

Direct Loan Consolidation

Nonetheless, it is true that the loan consolidation program is facing serious challenges. Of the 142,856 borrowers who have applied to have their loans consolidated through the direct loan program, EDS has consolidated the loans of 53,711 of them. The applications of 84,078 borrowers are still pending and 5,067 borrowers withdrew their application or failed to submit a promissory note after repeated reminders.

Table 1. Status of Consolidation Applications Received by EDS

Applications Received	142,856

Applications in Process 84,078

Applications Withdrawn 5,067

Completed Consolidations 53,711

As background, our first direct loan contractor, Computer Data Systems Inc. (CDSI), initiated its loan consolidation process in March 1995. The CDSI process was personal computer-based and relied heavily on manual procedures. When the contract came up for renewal, EDS, a leading private-sector firm with an international reputation for managing large computer systems, was awarded the competitive contract based upon its proposal for a technologically sophisticated, client-based process that would provide lower cost and a greater capacity for increased volume.

EDS was required to pass a rigorous systems testing process developed by the Department and approved by Price Waterhouse. After all required phases of testing were successfully completed with approval from Price Waterhouse, the Department allowed EDS to assume direct loan consolidation operations on September 16, 1996.

Despite extensive testing and review, EDS experienced systems problems in part because of some processes incorporated into the system to reduce the need for manual intervention that created some new, undetected problem areas.

Consolidating student loans is like consolidating several mortgages on a home, hundreds of times a day. Every consolidation may involve multiple parties, including the consolidator, the borrower, credit bureaus, guaranty agencies, and an average of three lenders. Erroneous, incomplete or late information from any of these parties delays the consolidation. And because loan balances are constantly changing due to the accrual of interest and borrower payments, a lag in the reporting of two pieces of information can become a real obstacle to timely and accurate loan consolidation.

Compounding these obstacles was the sheer volume of loan consolidation applications EDS received. Based upon our experience in the first two years of the program and comparisons with Sallie Mae, the largest private loan consolidator, we anticipated roughly seven thousand consolidation applications per month. In fact, since September 1996, EDS has received roughly twelve thousand applications per month. This volume made it very difficult to trouble-shoot and fine-tune the system while also processing consolidations.

On August 26, 1997, EDS temporarily delayed the final, funding and booking phase of the consolidation process while it took immediate action to correct deficiencies in its processes. EDS also temporarily stopped accepting new loan consolidation applications so it could eliminate the backlog of applications that accumulated since it began consolidating loans last fall. EDS continues to process the applications it has already received and has already resumed the last phase of the consolidation process for some loans.

Most borrowers with only direct loans are not affected by the temporary suspension because their loans are already included in a single payment, and thus may be seen as self-consolidating. Likewise, borrowers with only FFEL loans could consolidate with a private lender, although the terms of consolidation may not be as beneficial. Borrowers who temporarily cannot apply to consolidate all their loans include those who have both direct and FFEL loans and FFEL borrowers who are unable to secure a satisfactory repayment plan from a FFEL lender.

The Department has faced this problem head-on. As I have previously emphasized, we are deploying every available resource to mitigate the effect on borrowers of the loan consolidation delays. We are also taking decisive action to remedy the problems at EDS.

We increased our staff working on-site with EDS in Montgomery, Alabama. The team included senior Department and Price Waterhouse staff and expert consultants with extensive banking experience that have been added to the EDS staff. Together, we are developing and implementing three plans: (1) to improve the direct loan consolidation process immediately and complete the pending applications; (2) to remedy errors made in previous consolidations, and (3) to re-engineer the process to increase capacity and improve timeliness and accuracy over the long-term.

First, working with the Department, EDS developed and implemented a plan, reviewed by Price Waterhouse, to establish new procedures to improve the timeliness and accuracy of the loan consolidation process immediately and complete the pending applications. EDS began implementing this plan on September 12. New procedures include:

Re-aligning staff responsibilities to address process bottlenecks;

Increasing the use of the National Student Loan Data System to verify student information;

Establishing hotlines between EDS and lenders to verify loan information;

Devoting additional staff to obtaining up-to-date information to ensure accurate consolidations;

Improving the process for verifying eligibility for income-contingent repayment with the Internal Revenue Service;

Upgrading the document imaging system to reduce errors; and

Establishing standard reporting procedures for lenders to reduce burdensome data entry.

EDS is now using these new procedures to consolidate applications currently in the system. In addition, EDS will be required to commit additional resources to the project if Price Waterhouse and the Department determine on October 6 that it has not met its weekly production targets.

EDS is also preparing for an anticipated surge of loan consolidation applications after EDS begins processing new applications. EDS has assured us that the new procedures will allow them to handle those loans in a timely and accurate manner. In order to resume accepting new applications, EDS will have to meet six key performance indicators:

No more than a two-week inventory of certifications (15,000 certifications or fewer);

100 percent accuracy rate on data entry on promissory notes and certifications;

Increased accuracy rate, acceptable to the Department and Price Waterhouse, on a statistical sample on promissory note writing;

All problems with transactions submitted to servicing are resolved within 72 hours;

EDS performs to the Department and Price Waterhouse-approved plan for resolving prior errors; and

Demonstration to the satisfaction of the Department and Price Waterhouse that its system can track status of all applications, including exceptions.

Second, by the end of the month EDS will finish a separate plan to correct inaccurately consolidated loans. EDS will undergo 100 percent validation for all loans. The plan will be reviewed by the Department and Price Waterhouse before it is implemented. It is of the utmost importance to us to rectify these errors and ensure future accuracy.

Finally, both EDS and Price Waterhouse have submitted long-term plans to fully re-engineer the loan consolidation process. These proposals are expected to lead to substantial improvements in the loan consolidation system's capacity, accuracy, and timeliness. EDS will implement a re-designed process by April 1998.

[Continued in next email]

==================== ATTACHMENT 1 ====================
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Received: from storm.eop.gov (storm.eop.gov)
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X-Sender: tombutts@t.imap.itd.umich.edu
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RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Jon_Oberg (Jon_Oberg@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:29-SEP-1997 19:50:00.00

SUBJECT: DL Consolidation

TO: Kathryn B. Stack (Kathryn B. Stack@EOP [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
House and Senate staff R's and D's talked this afternoon and essentially decided to go with the emergency two-way consolidation, pending approval of their members tomorrow. They are still discussing Need Analysis Amendments on the bill.

I advised D's that we likely were going in a different direction.

They are troubled about the $25 million offset and think it is up to us to find one if we don't like Sec 458 reductions.

We need to get them our numbers TOMORROW on why DL is actually in good shape (except for consolidation). Otherwise, it is going to be another negative session with all of DL tarred again.

On the matter of our using Sallie Mae/Lender of Last Resort: The SM Privatization Act was included in HR 3610 last year, and some of the applicable provisions can also be found in the Cong Record of Sept

28,

1996, page H11721. It appears to me (OGC is not available at the moment) that the Secretary could require SM to do consolidations or purchase loans. Here is some of the language....

3) Dissolution of the association: The Association shall dissolve and the Association's separate existence shall terminate on July 1, 2013, after discharge of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date by notifying the Secretary of Education and the Secretary of the Treasury of the Association's intention to dissolve, unless within 60 days of receipt of such notice the Secretary of Education notifies the Association that the Association continues to be needed to serve as a lender of last

resort

pursuant to subsection (q) or continues to be needed to purchase

loans

under an agreement with the Secretary described in paragraph (4)(A). On the dissolution date, the Association shall take the following actions:

...

`(4) Restrictions relating to winding up:

`(A) Restrictions on new business activity or acquisition of assets

by

the association:

`(i) In general: Beginning on July 1, 2009, the Association shall not engage in any new business activities or acquire any additional program assets (including acquiring assets pursuant to contractual commitments) described in subsection (d) other than in connection with the Association--

`(I) serving as a lender of last resort pursuant to subsection (q); and

`(II) purchasing loans insured under this part, if the Secretary, with the approval of the Secretary of the Treasury, enters into an agreement with the Association for the continuation or resumption of the Association's secondary market purchase program because the Secretary determines there is inadequate liquidity for loans made under this part.

`(ii) Agreement: The Secretary is authorized to enter into an agreement described in subclause (II) of clause (i) with the Association covering such secondary market activities. Any agreement entered into under such subclause shall cover a period of 12 months, but may be renewed if the Secretary determines that liquidity remains inadequate. The fee provided under subsection (h)(7) shall not apply to loans acquired under any such agreement with the Secretary.

`(B) Issuance of debt obligations during the wind up period;

attributes of debt obligations: The Association shall not issue debt

obligations which mature later than July 1, 2013, except in

connection

with serving as a lender of last resort pursuant to subsection (q) or

with purchasing loans under an agreement with the Secretary as

described in subparagraph (A). ...=================== ATTACHMENT 1 ===================
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(IMA Internet Exchange 2.11 Enterprise) id 0003F753; Mon,
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